DOCUMENT RESUME

ED 364 751 CE 065 319

TITLE	A Competitiveness Strategy for America. Joint Hearing on the Competitiveness Policy Council Second Annual Report to the President and the Congress, Analyzing a Comprehensive Blueprint for Stronger Incentives for Private Investment, a New Export Expansion Strategy and a Sweeping Education Reform, before the Committee on Banking, Housing, and Urban Affairs, Joint Economic Committee. United States Senate, One Hundred Third Congress, First Session.
INSTITUTION	Joint Economic Committee, Washington, D.C.
REPORT NO	ISBN-0-16-041305-2; Senate-Hrg-103-144
PUB DATE	16 Mar 93
NOTE	94p.; For related documents, see ED 356 389-390. Contains some small type.
AVAILABLE FROM	U.S. Government Printing Office, Superintendent of Documents, Congressional Sales Office, Washington, DC 20402.
PUB TYPE	Legal/Legislative/Regulatory Materials (090)
EDRS PRICE	MF01/PC04 Plus Postage.
DESCRIPTORS	Competition; *Dislocated Workers; *Economic Development; *Employment Problems; *Federal Government; Foreign Countries; Futures (of Society); *Government Role; Hearings; *Policy Formation; Postsecondary Education; Productivity; Public Policy; Secondary Education; Unemployment; Unions
IDENTIFIERS	Congress 103rd

ABSTRACT

This document records the oral testimony and written statements of 13 U.S. Senators and Representatives, government officials, a corporate chairman, and a union president on the problem of economic stagnation in the United States and the formulation of a strategy to promote greater world competitiveness. Some witnesses focused on the need for better education and job training for the 20 percent of people considered illiterate in the United States, whereas most witnesses focused on the lack of family-supporting jobs. The witnesses said that millions of middle-wage jobs have disappeared, leaving only a few highly skilled, highly paid jobs and many part-time, low-wage jobs without benefits. Witnesses proposed creating strategies to encourage investment in manufacturing jobs in the United States, such as investment credits and elimination of barriers to exporting goods. Some witnesses opposed additional taxes to pay for improvements; others supported them for humanitarian purposes. Some were totally proponents of the free market, but others said that the free market had not created jobs for the past 20 years and that some sort of government stimulus was needed. A long-term investment, such as improvements in the infrastructure, was more favored than shorter-term approaches. (KC)

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S. HRG. 103-144

A COMPETITIVENESS STRATEGY FOR AMERICA

ED 364 751

JOINT HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

JOINT ECONOMIC COMMITTEE

UNITED STATES SENATE

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

ON

THE COMPETITIVENESS POLICY COUNCIL SECOND ANNUAL REPORT TO THE PRESIDENT AND THE CONGRESS, ANALYZING A COMPREHENSIVE BLUEPRINT FOR STRONGER INCENTIVES FOR PRIVATE INVESTMENT, A NEW EXPORT EXPANSION STRATEGY AND A SWEEPING EDUCATION REFORM

MARCH 16, 1993

Printed for the use of the Committee on Banking, Housing, and Urban Affairs

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U.S. GOVERNMENT PRINTING OFFICE
71-132 CC WASHINGTON : 1993

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-041305-2

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A COMPETITIVENESS STRATEGY FOR AMERICA

TUESDAY, MARCH 16, 1993

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
AND JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committees met at 10:05 a.m., in room SD–538 of the Dirksen Senate Office Building, Senator Donald W. Riegle, Jr. (chairman of the Banking Committee) and Senator Jeff Bingaman of the Joint Economic Committee, presiding.

OPENING STATEMENT OF CHAIRMAN DONALD W. RIEGLE, JR.

The CHAIRMAN. The committee will come to order. Let me welcome all those in attendance this morning, and very particularly, our witnesses who are here today.

Today, the Senate Banking Committee and the Joint Economic Committee are cohosting a hearing at which the Competitiveness Policy Council is releasing in a formal way its second report to the President and to the Congress.

I think as is generally known, the Competitiveness Policy Council was created by Congress in the Omnibus Trade and Competitiveness Act of 1988, in a provision authored by Senator Jeff Bingaman, who will cochair today's hearing.

The Council was created to be a bipartisan forum, where representatives of business, Government, labor and public interest groups could meet to really sort through the issues of U.S. competitiveness, get to the problems we are facing in that area, and devise recommended solutions.

I want to say before going on to some of their findings today that they've done excellent work and we appreciate very much the leadership they are giving to the country in really bringing these matters into tight focus and laying out not just a summary of serious problems, but also recommended solutions to deal with those problems.

In the first report that the Council made, they called upon the United States to develop a comprehensive competitiveness strategy to reverse our country's economic decline. They said at the time that the United States:

> Will not be able to maintain a leading role, nor perhaps to be in a position to influence world events substantially, if we continue to slide economically.

In the second report being released today, the Council notes that much of the economic growth that our country experienced in the

1980's was financed by debt, a major portion of which was borrowed from overseas.

It further notes that during the last decade, the United States has run merchandise trade deficits that add up to over $1 trillion. As a result, the United States is now the world's largest debtor nation and we continue to build foreign debt at an alarming rate.

This morning, the Council will present a host of recommendations dealing with education, training, critical technologies, capital formation, and trade policy, and they have laid out, I think, a number of very important recommendations for us.

They've also given us in their findings the fact that real American wages today are lower than they were some 20 years ago in 1973, that America invests only half as much in its future as do other major industrial countries, and only one-third as much as Japan.

They present a finding that's fully 20 percent of our adults are functionally illiterate. They point out, as I said earlier, that over the past decade, our country has accumulated merchandise trade deficit on a cumulative basis in excess of $1 trillion, and is continuing to add to that at a rate close to $100 billion each year. And they again then come around to focus on how we've got to improve the training and the education of our work force, along with other steps in order to be able to create a higher, ever higher standard of living for ourselves. Otherwise, we'll be forced to compete by lowering wages and going against low-wage economies in other countries.

Finally, before yielding to Senator Bingaman, let me draw attention to an article today in the Wall Street Journal, on page A–2, which says, "Three Economists Forecast Gains Under Clinton Plan." This talks about a trio of University of Michigan economists who have a very well regarded computer model of the economy and they've put into that model the basic elements of the Clinton economic plan and they have drawn from it a conclusion that it will be very good for the economy, and that we'll see growth, that we'll see more job creation and, in fact, they predict even greater deficit reduction than the administration itself is predicting. But it's a very solid analysis and a very positive one, and I think worthy of note.

I'm going to hold off in introducing our witnesses until the other members have made their opening comments. But let me now yield to Senator Bingaman, who is cochairing this hearing today.

Senator Bingaman.

OPENING STATEMENT OF SENATOR JEFF BINGAMAN

Senator BINGAMAN. Thank you very much, Mr. Chairman. Thank you for initiating the hearing and doing this jointly with the Joint Economic Committee. I think your leadership on this whole set of issues is well known to all of us and has been admired by me ever since I came to the Senate 10 years ago. So I greatly appreciate the chance to be with you here today.

This panel deserves a lot of credit and I look forward very much to their presentation today. I do think that the panel has established itself as a major participant in the policy formulation that goes on here in the country. The great support that the Council

gave on a bipartisan basis to the transition team I think is very important.

Secretary Reich, Laura Tyson, various people in key positions in the administration, I think benefited substantially from the suggestions that came out in the deliberations of the Council.

I'd just point out, sort of on an historical note, I think when the presentation was made a year ago, there was a major effort made by Fred Bergsten to differentiate this group from the Vice President's Competitiveness Council.

That problem is now no longer a major problem and I do think this Council continues to make a contribution. I would say not only does it make a major contribution in putting forth proposals, but in pulling in the diverse interests that make up our policy-making apparatus, and that is industry and labor, together with Government.

So I look forward to the proposals that the Council comes up with. I note that they did have trouble reaching consensus on deficit reduction. That's not unusual. We have trouble reaching consensus here in Congress on deficit reduction.

I would just also point out that this work of the Council is, I hope, a multiyear effort because, clearly, the problems we're talking about here are not ones that will be solved very quickly. They're not ones that we can deal with this year and then move on to other things next year. I think these are the issues that we've got to focus our attention on as we go through the 1990's, and this Council will help us greatly to do that.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Bingaman.

Senator Murray.

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Mr. Chairman, thank you for holding this important hearing today. I don't want to make a long opening statement because I want to hear what you have to say today. But I briefly want to say that I have read the recommendations and want you to know I'm a strong supporter of export promotion. Coming from the State of Washington, that has been the one silver lining that we've had when our economy has been declining.

It does seem to me, Mr. Chairman, that competitiveness has become a meaningless word, however. Who can oppose competitiveness? It does make a difference, however, how you put together policies underneath all of this, whether it's our education system or tort reform or trade posture. These items always become controversial.

So I appreciate your recommendations and look forward to your testimony this morning.

The CHAIRMAN. Let me just finally say that in our committee here, we have now had over 30 hearings on competitiveness since 1989 alone, when I assumed the Chairmanship. And so, we have a very solid foundation, I think, of expert testimony that provides a context in which we hear from you today.

The four distinguished Council members who are going to be presenting the Council's second report are C. Fred Bergsten, who is Chairman of the Council and who is Director of the Institute for

International Economics, which he founded in 1981. He was Assistant Secretary of the Treasury for International Affairs during the Carter administration and he has written numerous books on international economic issues.

Mr. Rand Araskog has been chairman, president and CEO of the ITT Corp. since 1980. He is also a director of several corporations, the New York Stock Exchange, and the Federal Reserve Bank of New York.

Lynn Williams is the international president of the United Steel Workers of America, a position he has held since 1983, and one of the most distinguished labor leaders in our country. He is also a vice president of the AFL-CIO.

Mr. Edward Regan is the New York State Comptroller, an elected position he has held since 1978. Mr. Regan was a member of the President's Commission on Industrial Competitiveness from 1983 to 1985, and I remember that work very well and appreciated it then and appreciate his continued service now.

So I want to thank each of you. We'll make your full statements a part of the record and we'll go right down the table.

Mr. Bergsten, we'd like to hear from you first.

STATEMENT OF C. FRED BERGSTEN, CHAIRMAN, COMPETITIVENESS POLICY COUNCIL; DIRECTOR, INSTITUTE FOR INTERNATIONAL ECONOMICS, WASHINGTON, DC

Mr. BERGSTEN. Mr. Chairman, thank you very much, and thanks also to Senator Bingaman for the leadership that both of you have demonstrated on this competitiveness issue over the years in the Senate, and particularly for your support and sponsorship for our commission. We deeply appreciate it. We're delighted to again have the opportunity to launch our report publicly with your committees today, and we thank you for the opportunity.

In recalling our report of a year ago, as you did, I would note that we have virtually the same group presenting it, and that's deliberate. Congress's genius in creating this commission was to set it up on a quadripartite basis, as you said, with representatives from business, labor, Government—State, local, and Federal—and the public interest. And, deliberately, we have on this panel a leading business executive, a labor union president, a Government official—from the State of New York in this case—and myself, from a public interest group, representing the different sectors that make up our commission. So we again thank you and we want to demonstrate our thanks by having this group of four again present the report to you.

In that report a year ago, we concluded that the Nation has a deep-seated competitiveness problem and needs a comprehensive competitiveness strategy to respond to it. In the new report that we are releasing today, we reiterate those basic conclusions, and we add a crucial element, a time dimension, to the problem.

We suggest that the Nation should aim for a turnaround in its competitive position by the year 2000. That 8-year period brings us to the end of the decade and the end of the century, and, not so coincidentally, covers the next two Presidential terms, including the present one. We think that's a reasonable period during which to aim for the fundamental changes we look to achieve, and we

therefore commend that as the timeframe that ought to be in all of our minds.

In a moment, I'll indicate some of the specific objectives that we would like to see achieved by the year 2000. But let me first say that when we presented our first report a year ago, we promised you in the Congress, and promised the administration as well, to lay out a detailed blueprint for competitiveness reform in our next report. And we have done that today.

To help us develop that detailed blueprint, we set up a year ago eight subcouncils to work in depth on the most important aspects of the competitiveness issue. We had distinguished Americans in charge of each of those subcouncils. Over 200 leading Americans participated, again from business, labor, the Government, and public interest groups.

We were very pleased that 22 Members of the Senate and the Congress, including Senator Bingaman on the Manufacturing Subcouncil, participated actively in our Subcouncils. We had about 20 high-level members from the administration that was in office for most of this period. And we had people from all over the country, again on a bipartisan basis. So what we bring you today represents a widespread consensus across parties and across different sectors of the economy as to what needs to be done to deal with the problems that ail us.

We made another prediction in our initial report, namely, that 1993 might turn out to be a very good year for action. I remember we discussed that a bit in the hearings last year. We were afraid that 1992, being an election year, probably would not be a good year for action. But given the predictions that we were making about the outcome of the election and the demand from the public for effective action to deal with the country's underlying problems, we felt, that 1993 might turn out to be a very good time to start addressing them. We are encouraged that some of that now does in fact seem to be occurring.

We're proud to have contributed to the evolution of the consensus in favor of significant action. As Senator Bingaman noted, we did make a number of direct inputs to the Clinton transition team as they were formulating the proposals that the President has now incorporated into his economic program. One result of that, of course, is a large degree of similarity between what we're proposing today and the program that the President has put before you.

We're quite encouraged by the shape the program has taken and the degree of support behind it. We're particularly encouraged by its long-term focus. The President has called for investment in a number of aspects of the American economy that we, too, feel need it: human resources, education and training programs, physical infrastructure, and private capital investment.

Although we in our Council would do more than the President has proposed in several areas and I'll come to that in a moment, we are quite encouraged by what has been put before you by the new administration, and our report reflects that support. We explicitly support the President's budget proposals as a good first step to pay for a competitiveness program and to increase national saving to the levels that are needed.

In our report today, as I indicated, we provide detailed elaboration in a number of areas central to the competitiveness problem. We can talk about some of those details in our testimony today. I'm not going to list all of them now, but instead I do want to focus on four sets of recommendations in our report that I think differentiate our product and tend to move the debate forward.

First, we set some specific national goals for the year 2000. We think those goals should be the benchmark against which to judge whether the reform programs are working and moving the country in the right direction. First, we conclude that it is essential to raise the annual national productivity growth rate to at least 2 percent a year. That doesn't sound very high until you recall that the productivity growth rate for the last 2 years was 0.7 percent a year. We are suggesting more than doubling the national productivity growth rate because that is the only way to get a higher standard of living for the American people.

The CHAIRMAN. Let me just stop you there. Is it fair to say that because you list that first, that there's a reason why you list it first, that that's really the most critical goal to shoot for?

Mr. BERGSTEN. Yes. We think that's the No. 1, certainly in terms of competitiveness. Senator Murray asked, How does one define competitiveness in a meaningful way? We define it as largely coterminous with productivity. Productivity growth is the only way to increase the standard of living—the real wealth and income—of a society. That's got to be at the top of the list.

Increasing productivity growth from 1 to 2 percent will raise the average family income by one-third from what it would otherwise be in just one generation. That's a big payoff from a seemingly small difference. Yet that's where we've been failing for the last 20 years. Had we been able to maintain the pre-1973 growth rate for the last 20 years, per family income in this society today would be one-third or more higher than it actually is, and the whole economic complexion of the country would be different. That's how central productivity growth is.

Second, however, there's another critical goal. We know that productivity growth can be achieved by laying off workers—something that is not in the overall interest of the economy, even though it can raise productivity. And so we state almost coequally with our first goal that we've got to get annual overall economic growth up to 3 or 3½ percent at minimum. That figure combines the productivity growth of 2 percent with the annual growth of the labor force of 1 to 1½ percent necessary to achieve and maintain full employment, not just to achieve a slower overall growth rate would mean productivity growth is being achieved by laying off workers.

Third, and I know this is a favorite of yours, Mr. Chairman we set a goal of eliminating the country's external deficit—the current account deficit—not bilaterally with Japan or any other individual country but on an aggregate basis. The reason is that we want to stop the buildup of foreign debt. As you mentioned, the United States borrowed over $1 trillion in the last decade. We are now the world's largest debtor country. That's an inherently unstable and uncertain way to finance our economic growth. We want to stop it. We want to balance the external books and rely on domestic saving for our future investment financing. That, incidentally, means that

the rewards from that investment return to Americans, not to foreign investors in our economy, so we get a double benefit.

Those are the goals. Those are the benchmarks we would set to measure the success of any new economic program. Certainly we're willing to let our program be measured up against those standards.

There are three specific policy areas where we would go considerably beyond the proposals of the administration. I want to list those quickly and then my colleagues and I will be happy to discuss them at length.

The first policy area is private investment. Our recommendation to double the rate of growth of national productivity requires a significant increase in both the quantity and the quality of private investment in the economy. All of our proposals for improving education, training, and the like try to get a bigger bang for the investment buck.

We want a more efficient labor force. We want better commercialization of technology. We want better corporate governance. We want a whole range of qualitative changes that will increase the return to capital, so that when we invest a dollar, we'll get a bigger return.

But in addition we've got to increase the share of the economy that goes into investment. Some of that will be Government investment for public infrastructure, but the bulk has to be private investment. We want to increase the investment share of the economy by at least 5 percentage points by the end of our 8-year period, and that's essential. We therefore recommend incentives to private investment going well beyond what the administration has proposed.

First, we propose a permanent equipment tax credit. We deliberately call it an equipment tax credit rather than an investment tax credit because it would be limited to equipment. It would not cover real estate or other types of investment that we think would not be so useful in promoting productivity.

We envision setting that permanent credit at a rate of about 10 percent. It could be put higher for the first year or two to provide a short-term stimulus. However, we want to increase the share of investment in the economy on a permanent basis, and therefore we would have the equipment tax credit apply on a permanent basis for all firms—not just smaller firms, as in the administration's proposals.

Second, we recommend a permanent research and development tax credit. Again, however, to dramatize the change we would make, we would change its name. We would call it an innovation and commercialization tax credit. We choose that name because we believe it is important to give incentives for investment not just in product innovation, but in process commercialization as well.

It is essential that our industries have an incentive to invest not just in the product, but also in the manufacturing process that translates the idea into the marketplace, all the way to the third, sixth, tenth iteration of the product, which is what wins market share. This is an area where the Japanese and other foreign firms do very well, but where our firms often do not, and where we think tax incentives to support them would be highly desirable.

We also want to extend the innovation and commercialization tax credit to give incentives for private industry to support research in universities. University research is available to all firms in an industry, and therefore it has a major benefit to the economy as a whole. If we could provide incentives for private firms to support university-based research, we think that would be desirable. We therefore would apply the credit in that direction as well.

Third, we would support private investment through accelerated depreciation allowances. The tax life of an asset is now often considerably longer than its economic life, particularly for information technologies and other new kinds of products that turn over very rapidly. So we would like to speed depreciation allowances as part of our multipronged effort to increase the incentives to private investment and improve its share of the economy.

The second major policy area is reform of our education system. We deliberately place education and training first among the several competitiveness issues we discuss.

Lynn Williams chaired our Training Subcouncil. He'll talk about that. But we also want to fundamentally reform the education system. Al Shanker chaired our subcouncil on that issue. He discussed it in our presentation before the committees last year. I would simply remind you of the basic thesis, which is that American students, particularly in high school, have very little incentive to do well. There is very little relationship between how they do in high school and whether they get into college, except for the most elite colleges. For those who go directly into the work force, there is almost no relationship between how they did in high school and whether they get a job.

Therefore we want to build into the educational system a series of incentives for students to do well. These would include putting standards in place that determine whether they graduate, and relating school performance to whether they get into college and what kind of jobs they get. Performance should also determine how teachers and staffs are rewarded, we feel it is critical to explore the whole panoply of devices necessary to put in place a standards-based education system. My colleagues can elaborate on that during the course of the morning's discussion, if you would like them to do so.

The third policy area that I would emphasize, and in which we have come to some very different conclusions than the administration, is trade policy. Here we suggest a six-part export expansion strategy, for the reasons that Senator Murray indicated.

One-third of all the growth in the economy over the last 6 years has come from our trade improvement. We still have a huge deficit, but it's improved enormously over the last 6 years. The recession of 1990–91 would have been twice as deep, and indeed would have been the deepest recession since the 1930's, in the absence of continued trade improvement. But the trade deficit is now growing again, and it's very clear that we need a multipronged program to expand exports. That's where, in fact, we would put our emphasis. First, we would work very hard in the G–7 to promote a global growth strategy. We can't expand our exports unless our markets are growing. Japan is in a recession by its standards. Europe is in negative growth right now. The G–7 must push very hard to get

the rest of the world to start growing again. The policy measures are readily available to do it. The time is ripe for a cooperative strategy, and it must be pursued by the administration between now and, at the latest, the economic summit scheduled for Tokyo in early July.

Second, the exchange rates have to be right. We know what happened in the early 1980's. When the dollar soared, it priced even the most competitive American firms out of world markets. Now we need to get exchange rates back in line. That's primarily a problem with the yen, which is too weak and is a source of the huge Japanese surplus that has again emerged. We then need to put reference ranges back in place around the currencies to keep them at equilibrium levels, so they will not get out of whack and disadvantage America's competitive position.

There are two or three major steps that we need to take at home to promote an export strategy. First, we need to significantly expand our export credit program. We simply have to be competitive with the other major industrial countries in the area of export finance. That's what wins the business on many big projects in many countries around the world. Yet the administration has frozen the level of the Export-Import Bank program, and over the longer run it actually projects a slight decline. I don't see how that's consistent with an export-oriented growth strategy.

We suggest a sharp increase in the program of the Export-Import Bank to enable the United States to compete on a level playing field with the rest of the world in this crucial export credit area. The budget cost is very small: only 6 percent of the total Export-Import Bank program authority actually comes out of the budget. We regard that as a very good deal.

In addition, we need to eliminate or sharply limit a number of the export disincentives through which our own policies block American exports. Here I am speaking of national security and foreign policy controls, many of which are carryovers from the cold war period, that need to be trimmed very sharply.

We talk a lot, and rightly so, about how other countries' import barriers limit our sales to them. What is less frequently realized is that our own export barriers stop not billions of dollars' worth but tens of billions of dollars' worth of sales that we could be making to other countries.

Finally, with the leadership of Senator Rockefeller in mind—he was an active member of our Trade Policy Subcouncil—we want to increase significantly the export promotion programs of the Department of Commerce and other parts of the Government to try to foster an export mentality in the minds of the American business community. Only 10 percent of American firms even export at all, and only 3 percent export to more than five countries around the world.

These are the areas, Mr. Chairman and Senator Bingaman, and other members of the committees, that we think differentiate the proposals we make today from those of the administration and the others you have before you. We think they are essential elements of a comprehensive competitiveness strategy and we commend them to you.

Thank you very much.

The CHAIRMAN. Thank you very much. Before we go to our next witness, we have had other members join us and I want to call on them for any opening comments they want to make.

Congressman Cox, let me welcome you here to the Senate Banking, Housing, and Urban Affairs committee room and let me invite you to make any opening comment you want to make, and then I'll do the same with the colleagues here.

CHRISTOPHER COX, U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Representative COX. Thank you, Senator. I'll be very brief.

One of the reasons I wanted to be sure to attend this morning was to hear not only the report that you're making on the merits, but also to hear whatever discussion you would care to engage in concerning President Clinton's plan to terminate your existence. Allegedly, some of the charter of your outfit is duplicative of what President Clinton hopes to do with other people inside the White House. And because of that impending threat to your existence, which is either well-advised or not, I wanted to hear from all sides on the subject. So, in addition to the very important merits of the report that you're giving, I hope that at some time during the course of the morning, we can get to that as well.

Mr. BERGSTEN. Mr. Chairman, if I could, I'd like to respond directly to that.

The CHAIRMAN. Yes, sure.

Mr. BERGSTEN. We, too, were a bit surprised to see in the documents that were submitted after the President announced his program on February 17, the proposal to eliminate this Council. So I called two of the central players in the administration who developed their economic program, Dr. Laura Tyson, the Chairman of the Council of Economic Advisers, Alice Rivlin, the Deputy Director of the Office of Management and Budget, who put the document together.

I think it would be fair to say that they both expressed horror when they learned, as they did only from my phone calls, that the proposal was there. There had been no discussion of that issue at the policy level, and they both indicated absolutely no intention to eliminate, or propose to the Congress, which created this Council, to eliminate this Council.

As the Chairman said, we have been working closely with members of the administration. Most recently yesterday, I had a long discussion with Secretary Reich about some aspects of their program. So I think it's fair to say that in the rush of putting their budget documents together, several things crept in that were not intended. We are therefore proceeding on the assumption not only that our current report will be helpful and widely used by the administration, but that we will continue in the future.

Indeed, in an effort to shorten my remarks this morning, I did not mention that we are planning to set up five new subcouncils, play the role of competitiveness ombudsmen that the Congress asked us to play in authorizing us originally, as we now have this blueprint and detailed report as the basis for doing so.

Representative COX. With the Senators' indulgence, I wonder if I might just finish this up right now.

The CHAIRMAN. Your opening comment?

Representative COX. Well, just to respond with a question. How much money might the Clinton administration hope to save by getting rid of the Council?

Mr. BERGSTEN. If they totally abolish the Council, they would save $1.2 million per year. We are testifying before the House Appropriations Subcommittee on Thursday. We have proposed a cut in our requested appropriation as part of our modest contribution to the overall budget correction program, which we think is essential. But total abolition of the Council, I have to say, would not exactly balance the budget.

The CHAIRMAN. We can come back to that. Let me share with Congressman Cox my own understanding of what I think may have happened. And that is, it may have been an error in the budget document that was submitted. I think the item that was being proposed to be put out of business was the Quayle Council on Competitiveness, as opposed to this organization. What happened was that probably in the haste of putting the documents together, they got the wrong title of the organization. I can't attest to that under oath, but that's my belief as to what happened.

Senator Moseley-Braun, would you like to make an opening comment?

OPENING COMMENT OF SENATOR CAROL MOSELEY-BRAUN

Senator MOSELEY-BRAUN. Mr. Chairman, I have an opening comment, but I'd just as soon file that for the record and ask Mr. Bergsten a couple of questions if this is the appropriate time to do that.

The CHAIRMAN. Well, let me go ahead and get comments from anybody else that hasn't had a chance to do so. I think if we start too far down the questions, unless it's on this other topic that was just raised——

Senator MOSELEY-BRAUN. No, sir. It's on part of his testimony. He piqued my interest on a couple of points and I wanted to ask him in detail.

The CHAIRMAN. I see. If you'll permit me, I think what I'd like to do is go ahead and get all of the statements on the record and then we can do that.

Senator MOSELEY-BRAUN. That's fine.

The CHAIRMAN. We've got Senator Wofford here, who also serves as one of the subcouncil members in the training area. Let me invite you to make an opening comment and then we'll go to Mr. Araskog.

OPENING STATEMENT OF SENATOR HARRIS WOFFORD

Senator WOFFORD. Let me just thank you for letting me participate this morning. I am only doing it partially because our Environment Committee is holding a hearing at this very moment on the North American Free Trade Agreement, which I know is of interest to our witnesses here, including our Pennsylvania colleague, Lynn Williams.

I had the privilege of serving on the training subcouncil, one of a number of people there that put in their time extra, as a lot of people did around that table. I was very impressed with the work

of that group you assembled, volunteers interested in that subject. And our report, I think, is very useful and pertinent. I look forward to studying all of the reports of the Council and to hearing as much of the testimony as I can today. And I hope, Mr. Chairman, that your interpretation of what happened on which Competitiveness Council is going to be eliminated is correct.

Thank you.

The CHAIRMAN. Thank you. Mr. Araskog, we're pleased to have you here and let me again acknowledge your stewardship as a corporate CEO in speaking out on these very important national issues.

STATEMENT OF RAND V. ARASKOG, CHAIRMAN, ITT CORPORATION, NEW YORK CITY, NY

Mr. ARASKOG. Thank you, Mr. Chairman, members of the committee. When I spoke to you about a year ago, I think I started off by saying that I was very dubious about whether the Council should stay in existence after its first report, and that I felt what we had done up to that point was sufficient. But I went on to say that because of the interaction that we had with the representatives of labor and Government, I thought it was worth continuing for another year to see if we came up with something that was really useful.

I remember at the meeting, one of the Senators at the time saying, "well, your report is great, but you told us about things we already know and haven't been able to do anything about." And I think that may very well be so today. I really would not for 1 minute try to defend the existence of this Competitiveness Council unless all of you really feel it's giving you something.

If it isn't, I'm wasting my time, which, like you, I have a minimum of. So you really have to make a determination as to whether we are genuinely contributing or not. Even if it's only $1 million, I'd just as soon save it. I am sure that you would want to save $1 million at every single place you could. And I think one of the problems that you hear about all the time about the Senate and about the House, and even about the executive branch, is, what's $1 million? What's $100 million? Now we're adding up the budget in trillions. So we'll have at it and you have at it, and whatever the result is, it's perfectly fine with us.

Fred has covered the overall area very well. What I would really like to focus on is the competitiveness area and the jobs area. I don't want to strike a discordant note of programs that have been proposed by the administration because I think, overall, the American people are enthusiastic about what's going on.

Senator Riegle, I'm somewhat dubious of economic models, even from the State of Michigan. I hope those three economists are right.

But I want to talk about the competitiveness for a minute and jobs. Incentive in America is extremely important, whether it's incentive to get off of welfare rolls or incentive to do better in the job that you have, and in doing better, to be rewarded for it, and to contribute to society in a meaningful way. As I said a year ago, corporations have a basic responsibility to create jobs. That that responsibility had gotten lost in takeovers and restructurings and fi-

nancial engineering, Wall Street maneuvers. All of a sudden, the people making most of the money were in the wrong part of the business, not the part of creating products and services for people.

You responded favorably to those remarks as did Lynn Williams. I think he was a little bit surprised at first, but I do think job creation is a fundamental reason for business.

The CHAIRMAN. You said job creation in America, as I remember.

Mr. ARASKOG. Right.

The CHAIRMAN. In America, not somewhere else.

Mr. ARASKOG. That's right, here. If we create them elsewhere at the same time, good for us. The main thing is to create jobs here. Now, the business of job creation involves people and business leaders. And somehow, what's worrying me about some of the dialog that's going on is that Government and the people are united in our thinking. The relationship between people and Government is accepted. But at the same time, there is a perception that some sort of division between people and business seems to be developing or has developed in the past. I hope we don't start to see this here, that business is somehow unrelated to people.

There is a lot of talk about jobs, about how the Government can create jobs by appropriating money and starting construction projects, either at the State, local or Federal level. Industry doesn't appropriate money; it makes profit. It conducts sales programs, and as a result creates jobs.

One of the things that does concern me about the current program, and I've expressed it during our Council meetings, is the tendency to expect that we're going to move financial resources from corporations and from individuals to the public sector, and that the public sector is going to do a better job creating jobs than the private sector.

It is hard to argue that we are going to increase American competitiveness by increasing Btu taxes on such industries as you have, Senator Murray, in the State of Washington where companies produce paper, pulp, and other forest products. The Btu tax would bring significant increased costs for companies that have to compete worldwide, an increase in the tax itself by 2 percent. As you all know, because of our current trade balance, are having trouble competing internationally. We are hampered by increases in taxes because of lack of deductibility or increasing nondeductibility of business expenses which affects many industries, including our tourist and hotel industry.

Overall, I haven't found anything in the current plan that is really better than what we have now with respect to increasing the competitiveness of business. Now you can argue that the personal taxes and the increase in personal taxes and its contribution to the Federal Government is positive. And I am certainly not going to argue the personal tax area at all here today.

I think, basically, what's being done is to strive for fairness. What I hope is that we do not harm initiative by telling young people, who didn't make a lot of money in the 1980's, that in the 1990's, now they're going to be expected to pay significant taxes if they earn over $100,000 a year.

$100,000 in the State of Nevada, the State of New Mexico, or the State of Wyoming, is a lot of money. $100,000 in New York City

is a livable wage, because the tax rate in New York City today, with the new Federal tax, will go well over 50 percent. There's a newspaper calculation that anyone earning over $100,000 in New York is working until May 15 for somebody else, not himself. That date could go to about August 1.

One thing, too, I would certainly recommend to you and obviously to the President, and to others is that these tax increases should be postponed until the economy is coming along better. Certainly it should not be retroactive to the first of the year, or even effective in the month of August or September, when these taxes are probably going to be approved. A lot of people aren't going to see much on their payroll check at all, if the taxes are retroactive.

So on the competitiveness side, I think we've got a lot of thinking to do. I'm not sure the current program is going to increase competitiveness. That's the responsibility of this Council to report to you and that's what I'm reporting.

On governance, I think what's going on in this country is excellent. I hope the pendulum, frankly, doesn't go too far and that every retired CEO sitting on a board doesn't want to take over from the guy who's running the company.

I think it can go too far, but I think the pension funds and the mutual funds—Mr. Regan represents a significant one—have really put the corporate boards' feet to the fire. And the boards are doing similarly with CEO's. Frankly, I am not concerned about the governance function.

Now what about, finally, this Council? Let me go back to one other point on jobs. There's a lot of furor now in the United States about immigration, related to the bombing in Manhattan, the situation in Haiti, and the concern of Americans in general about their fellow man. This is an attitude which I think is phenomenal and which I do not witness it in our activities in Europe, Asia, Latin America, and elsewhere.

We are the most generous Nation on immigration you can imagine, but I'm not sure that we should bring more unqualified, untrained people in given the current economic environment. But that is a humanitarian issue that you play a principal role in deciding.

On whether this group goes forward or not, let me say that I care about the new issues in the sense that I'm patriotic. I don't like being called unpatriotic because I happen to be a CEO. I believe very much in this country. And if we can help by working on tort reform, which is a crucial issue, on social problems undermining the Nation's competitiveness, like drugs, on creating high performance work places, if we can help there, and it's your determination that we can, and the President's, we should stay in existence.

So, if we can add to what we've done so far, we should. The President is doing things with his new Cabinet the way he thinks he should do them. He's been elected to do that, and he has a Democratic Congress to support him. If, in your judgment, we're telling you things you already know, then if we're not helping, and by all means, put us out of our misery. If we are helping, then we're delighted and I'll continue to stay with this committee.

Thank you.

The CHAIRMAN. Thank you very much.

Mr. Regan, we'd like to hear from you now, please.

STATEMENT OF EDWARD V. REGAN, COMPTROLLER, STATE OF NEW YORK, NEW YORK, NY

Mr. REGAN. I thank you, Mr. Chairman, and members of the committee.

I endorse Rand Araskog's comments about the value of the committee. I have to suggest that if you look at the talent to my right and to my left, the cost/benefit ratio, I think, for Americans is very much in their favor. So I think on the merits, we have contributed and should stay helping you and helping the country. The politics is for somebody else.

I remember, Mr. Chairman, last year, you and I had a brief discussion and I said that when I walked the streets of Buffalo last year at 8 percent unemployment, the mood was far gloomier than when I walked the streets of Buffalo in the mid-1970's, at 12 and 13 percent unemployment, and I suggested the same was undoubtedly occurring to you in Detroit and other cities. And that is because the Nation has very much of a long-term problem and that, while perhaps a number of our political colleagues didn't recognize it, the American public sure did.

Stagnation, economic sclerosis, is very much a part of the American psyche. And if you were speaking to a Rotary or a Kiwanis or a Chamber of Commerce group and you, as a speaker, didn't mention it, the audience was sure to bring it up, a decided change from just a few years before. So the public understood it, that the American dream—that their children would do better than they—had seriously eroded.

I don't think at that point the politicians, all of them, understood it. The public did. And the trap was set. The trap was sprung on election day. No question about that in my mind. Now everybody knows, and we're in for a sea change. This committee and this hearing and our report, I'd like to think, is very much part of that change.

You had a President, in both his campaign and in his focus in the first couple of months in office, who understands and who is leading. You had one of the candidates who ran a very unique campaign on these very issues and who continues to inform America as at least to his views on the economy. So the change is there. We all know that we've had a long-term problem, and my suggestion and belief is that the cure will also be a long time in coming.

STAT scores and other indicia of our erosion, Mr. Riegle, occurred in the mid-1970's. It's been with us for a long time—productivity, decline in real wages, decline in education scores. It's been with us now for 20 years. The 1980's will look like a minor adjustment when we step back and look at the big picture, and an aberration as such. The decline and the erosion was there, as our report comments and as you so commented, too.

I believe the cure will be a long time in coming, too. We want to have Government set the stage to create wealth, is really what we're after here. There is an overcapacity in this country in office buildings and shopping plazas and automobile factories, and there's a tremendous debt load. Both of this will take long, years and years, to wash out of our system.

And while I endorse investment tax credits and the like, the problem is empty office buildings and empty factories. And until we

get a situation where there is deterioration in our physical plant, where we need new plant and equipment, until then, I don't really think that we're going to be positioned for growth. I do believe that that will occur, and occur eventually. Maybe as Fred says, and as we suggest, at the end of this decade.

But it's with us and it isn't going to be cured instantly. You can add to that that taxes are up, whether we need them or not, and I happen to believe we need some of them, perhaps all. They do dampen economic growth. No matter which side of the fence you're on on taxes, that fact stands out. And I also believe that when you eliminate or moderate, I should say, the stimulus of deficit spending, you also dampen the economy.

Again, building for the future, but clearly dampening the potential for current economic growth. So we have a long haul in front of us. And what you're doing this year I just think is superb and I hope, again, to lead in that direction. I hope again we can make a contribution. Let me conclude just on two factors, both of which need at least some discussion.

One is interest rates. Down they went. And the stimulus from an interest rate decline is just something. I think Secretary Bentsen had a wonderful equation which we adopt, which would indicate that just the decline we've had this calendar year is like a $100 billion a year, the equivalent of a $100 billion a year Government-generated stimulus in the economy, and I happen to agree with him, that a one-point decline in interest rates does do that for our economy.

I think another surprise, and I will just deal with this and if you'd like to talk about it, we can, and then we'll just chat a bit about the interest rates and I'll wrap up, is something that Rand Araskog mentioned. And that is the change in shareholder attitude, corporate board attitude and, as a direct result, CEO attitude in achieving corporate performance. From last year to this year, that has been a very significant change in the country all for the good.

Back to interest rates. They're down for three reasons. Primarily is that the American public and the markets have credibility in you and the President. If the markets and the public thought for an instant that you weren't serious, and the President wasn't serious about getting a hold of the deficit and about ending gridlock, which I think is much a factor in the decline of interest rates as anything else, that at long last, we're going to achieve agreed-upon goals in this country.

If they didn't believe in you and in what the President is doing, interest rates wouldn't have dropped. I think that's the fundamental fact. There is confidence in the country that I certainly, as a working politician, haven't seen in years and years.

Second, obviously, inflation is down. Inflation, when it goes up, stimulates almost instantly interest rate climb. When it goes down, it takes 10 years for it to wash out of the system. We really don't believe it. And at long last, we're looking back at 1979, 1980 and 1981 and saying, well, it's over and we've got leaders in the country, both in Congress and in the White House, that are going to keep it over. I think that's a very important part. I also would have to say, in spite of the survey which I read, too, that the markets

see not a strong recovery, and that, for better or for worse, keeps interest rates down, too.

Caution. The minute the public sees any one of the big spending items going out of control, you're going to see a turnaround in their attitude. And the papers, the media will pounce instantly if the health-related spending starts to break through targets. It will be devastating. It will be a trap of a different sort set, unfortunately, for the country.

One that I'm concerned about, and that Fred mentioned, there is not enough focus on long-term investment. Now maybe that is a direct result of all of us being concerned about the first serious attack in decades on the deficit and how we will do it and when we will do it, on job stimulation, getting the budget through, and the like. But the fact of the matter, this is a long haul, and the fact of the matter is that private investment is the thing that will pull us out. Productivity is the magic bullet, but underneath that is private investment.

I believe we do need more spent on infrastructure, public infrastructure. I'm sorry that the infrastructure debate, whether how much and when, has become a debate of stimulants and pork barrel, rather than a debate of long-term investment. That's what it's gotten bogged down in, is that the Governors and the mayors won't spend the money and Congress won't spend the money well, rather than that public investment inevitably and invariably spurs private investment. That's the fact and that's where the debate belongs.

So if your two budget committees have found additional cuts, I would not put them in deficit reduction, much as I believe that should be done. But I believe you can't pull that plug too fast. You do pull a stimulant out of the economy. And I would put it for their budget cuts into infrastructure and job training and education, such as our report does recommend, because that is where we really build and really get ourselves poised as a Nation.

I think the public understand this. They are very tuned in. And that if they see long-term, solid investment in education, training and public infrastructure, you're going to see again a very positive reaction. If they see short-term job stimulant and pork barrel debates, you will find an entirely different reaction, my instincts tell me, from your own constituents.

So we have a long-term problem in this country and this committee, and I'd like to think our group, in a very minor way, but certainly you, ladies and gentlemen, are poised to take the country into the new years where we really create the ability to generate wealth for the people that we all represent.

Thank you.

The CHAIRMAN. Thank you, Mr. Regan. I appreciate your comments very much, and your leadership as well.

Mr. Williams, we're pleased to have you here, and we'd like to hear from you now.

STATEMENT OF LYNN R. WILLIAMS, PRESIDENT, UNITED STEELWORKERS OF AMERICA, PITTSBURGH, PA

Mr. WILLIAMS. Well, thank you, Senator, and Senators, I really appreciate the opportunity to be with this group and that you're here to involve yourselves in this discussion.

My remarks will focus this morning on what the Council's recommendations means for people. Competitiveness and, more specifically, the Council's overall goal of doubling labor productivity growth, is the key to the size and quality of life of our middle class. Wage rates closely track labor productivity. As real wages have declined in the last 20 years, so have the fortunes of our middle class and workers in general.

Even if their overall standard of living has not declined, working families have found themselves running and working harder just to stay in place. The key to keeping alive the American dream of generation after generation increases in living standards lies in strengthening wages. And the key to higher wages lies in stronger productivity growth.

The Council's recommendations aim to raise productivity growth by improving the way we outfit our work force for economic competition. All of our recommendations have one thing in common—they leverage the capabilities and increase the value of American labor.

Our strategy listed a number of basic principles, among which was the realization that unions, as the workers' own organizations, must be enlisted as full participants in developing, designing, and bringing about a new culture of workplace organization and human resource development.

Where a workplace environment is soured by an antiworker organization attitude, it is difficult to envision the commitment to substantive changes which our report recommends.

Indeed, the systemic changes inducing a transformation of the education and training of workers, a key to competitiveness in the global economy, recognizes that public and private resources will more effectively be deployed if we build real partnerships between business and labor.

Perhaps the recommendations with the most immediate effect on American workers are those in the area of training. As chairman of our training subcouncil, I would like to take a few minutes to focus on these proposals. I have already mentioned the central statistic that real wages in the United States have been declining for 20 years. But this overall trend masks the fact that the drop has been far faster for the bottom two-thirds of wage earners.

Since 1979, the share of full-time workers earning poverty-level wages has jumped by more than 50 percent. As a result, the gap between rich and poor has been growing. It is greater today for American males than at any point since 1940.

Employees without college degrees have borne the brunt of these trends. Only college-educated workers have increased income since 1979. Everyone else's have fallen. In short, we have created two wage tracks: high incomes and great opportunity for those able to get a good education; low wages and limited opportunities for the 75 percent of high school students who will not graduate from college.

Our competitors invest substantially more to develop the skills of their workers, particularly those of noncollege graduates. Two-thirds of the German workforce have completed an extensive apprenticeship program compared to less than two-tenths of 1 percent in the United States.

Japanese firms put secondary school graduates through intensive training programs which are just the beginning of a lifetime of work-based learning. Overall, the United States spends 0.17 percent of gross domestic product on employment and training, while France spends four times as much.

There is no optimal amount of national investment in work force training which will guarantee substantially higher productivity. However, it is clear that the United States is underinvesting. In both Germany and Japan, the bottom two-thirds of wage earners have boosted productivity faster than their American counterparts. In turn, this has contributed to stronger wage growth and more equitable income distribution. America must respond to this challenge. For these reasons, the training Subcouncil has proposed reforms in four main areas.

First, building a better, more streamlined training system. The General Accounting Office has determined that there are 125 different, often poorly coordinated, Federal employment and training programs administered by no less than 14 agencies. The Council recommends,the creation of a network of local human resources development boards to serve as "one-stop shopping" for people seeking training services. National occupational skill standards should also be established to focus the training efforts of both students and employers. The United States is the only industrialized Nation without a formal system for developing and disseminating skill standards.

Two, encouraging continual skills upgrading on the job. Many obstacles prevent firms, especially small- and medium-sized enterprises, from investing more in the development of their workers. Two of the biggest are concerns about employee turnover and cost. The Subcouncil identified two options to help overcome these hurdles.

First, institute a 1.5 percent of payroll training guarantee which would require firms with at least 50 workers to invest 1½ percent of payroll in developing the skills of their employees, or pay the equivalent into a national training fund.

And B, create a program of training grants for firms, unions, and consortia, coordinated with existing State modernization and customized training programs and financed through general revenues or a very small payroll tax.

In addition, individual workers, like firms, face obstacles to skills upgrading. Present Federal efforts on their behalf are limited. One problem is the narrowness of the tax deduction for job-related training expenses. The job-related requirement benefits managers with their broadly defined job descriptions, and discriminates against front-line shop floor workers. Therefore, the Subcouncil proposed broadening the tax deduction to include skills which would promote long-run employment security.

Three, integrating school and work for high school students. A third of our high school graduates drift for over a decade between jobs having little career potential. At the same time, our employers lament the lack of qualified young workers.

The Subcouncil endorsed a range of efforts to help communities strengthen their school-to-work transition programs, including the provision of incentives to employers and unions to participate in

apprenticeship and other programs, creation of a National Youth Service Corps, and allocation of a small portion of Federal economic revitalization and public works funding to youth apprenticeship.

Four, strengthening the capacity of workers to adapt to change by providing generous dislocated worker assistance. The Subcouncil recommended the creation of a Comprehensive Worker Adjustment Program, backed by secure and adequate funding. The program should offer improved job search assistance, adequate income support during longer- term retraining, a wage supplement to help workers return to work faster without suffering severe income drops, and, in the absence of universal health insurance, some degree of interim health care coverage. The challenges of dislocation cannot be avoided, nor should workers, firms and society bear the substantial costs of job losses.

We have proposed in our Subcouncil report that Congress and the administration take a dramatic step forward, enhancing the benefits available to dislocated workers, among which is the income support feature of trade adjustment assistance which is essential for longer-term training.

With the possible advent of a NAFTA settlement and a new GATT agreement, the features of TAA need to be upgraded and its scope expanded to include at least those affected by environmental requirements and defense down-sizing.

Finally, I would like to say a word or two on the subject of the budget deficit. As president of the United Steelworkers of America, I see deficit reduction as a means to the end of boosting capital investment, not as an end in itself. That is why I support the Council's deliberate and balanced proposal to implement immediately a program to cut the deficit in half over 4 years and to perform a mid-course review before deciding how far to go in the second stage of deficit reduction. I am not convinced that moving more rapidly to budget surplus, as suggested by some, is necessary to raise national saving and investment. In fact, it might hurt saving and investment by undermining economic growth.

The Council's report attempts to indicate how Government policy could improve our international economic competitiveness and standard of living. I believe these recommendations could form the basis of a successful economic strategy for the United States over the course of the next generation.

I'd like, if I might, just to comment on two of the issues that have been raised. In terms of the continuing life or not of this Council, I would like to weigh in on the side that I believe the Council has been useful, although, obviously, that's for all of you to judge, not for us to judge ourselves. But I think it's been a very useful exercise in bringing together the different constituencies in the country and I think we've been able to find a remarkable degree of consensus, although not, obviously, an entire consensus.

I don't say this from the point of view of a person looking for something to do. I personally find working with a friendly administration much more demanding than working with a hostile one. It requires us to have ideas from time to time, not simply to be obstructionists. So it's not that I seek employment or anything like that.

Second, I'd like to say how enthusiastic I am personally, and I think essentially the Council is, although my colleagues—this sounds a little bit like a Council meeting this morning. We have different ways of emphasizing those matters that concern us. But the thrust, in my mind, of our report a year ago was that America should have a competitiveness strategy, that we should have some kind of, you'll forgive the word, some kind of a plan or something about knowing how to proceed.

And I am personally most enthusiastic that the new administration has indeed put forward a strategy and put forward a plan. I think all of us can find elements in it that we would prefer to be a little different than they are. But overall, I think the American people, in their response, have indicated the great encouragement they feel, and I certainly share in that, that we have an administration in place that has a sense of direction, has a focus on these issues.

I hope that our Council will be able to continue and be able to contribute to that sense of strategy and sense of direction which is so refreshing.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Williams.

I want to go into the question period. We've got members here.

Senator Domenici, did you have a brief opening comment you want to make and then I'd like to go to the questions. The same thing with Senator Bennett. Did either of you have a brief opening comment you'd want to make? We'd take that now.

OPENING STATEMENT OF SENATOR PETE V. DOMENICI

Senator DOMENICI. Mr. Chairman, I wouldn't have done it, but I don't think I would necessarily be here when you get to me on questions because I can't be here but another 20 or 25 minutes. So could I take just a couple of minutes?

The CHAIRMAN. By all means.

Senator DOMENICI. Let me first suggest that I don't intend today to offer a series of constructive, what I would consider to be constructive criticisms of the President's plan on the economic front, although I would merely make one point. Two points. I think it was said by almost everyone that it's very important that the American public not give up on this being a major deficit reduction package. I think everybody agrees with that, whether we like the components or not.

I would just like you all to know because you work very hard on competitiveness. I don't believe an economic reform competitiveness package will work if it has the following two ingredients.

One, for all of the domestic spending of our country, all of the entitlements and all of the appropriated accounts, when you finally add up the pluses and the minuses, you will have reduced that part of the American budget, which is two-thirds of the budget, you will have reduced it by the sum total of $7 billion over 5 years.

Now put that $7 billion in domestic cuts net up alongside of $295 billion net, acknowledged in the budget hearings of new taxes. Much of the new taxes are retroactive to the beginning of this year. I believe it has a very, very high probability, No. 1, of not helping the economy grow and second, I am absolutely convinced that it

will not get the deficit under control because the major growth components of this budget are not touched.

So that, Mr. Regan, when you speak of entitlements, the truth of the matter is, there's about $60 billion in Medicare constraints, but they are not reforms. They are merely saying, don't pay the doctors and providers as much year by year. So I, frankly, am very doubtful, that this plan will, No. 1, control the deficit. And No. 2, will cause economic growth.

Now my last point is that all of you seem to agree, and I have read some of what you have read, Mr. Williams, and I compliment you for targeting it. One of the big problems with America is that American corporate management is not given the luxury and privilege of investing for long-term returns, because the pressure is to get returns right now. And that is because of the tax structure of the United States.

One can run around and try to say, let's make them more responsive. But if you're making them more responsive to a market that is not responsive to our long-term growth, it doesn't help much. I think that you should be commended for the report which says that the income tax system of our country doesn't work and that, as an extreme option, that we should substitute a consumption-based tax, and that is a consumption-based income tax for the current income tax.

I call to your attention and to the committee's attention that the CSIS Strengthening of America report chaired by Senator Nunn and myself does a lot of the things that you have been recommending. It finds serious fault with the tax structure that double-taxes dividends, that gives corporate management a great break incentive to have stock values go up based upon current dividend availability, where our competitors aren't nearly as concerned about dividends and current performance, but have the luxury of having their stock values based upon long-term performance as evaluated by a whole different set of analysts than analyze ours today for our pension funds and—who control our stock market now. Pension funds and the third-party intermediaries own American corporations. There is nothing personal about it. There is nothing long term about it. It's how good is it right now?

Until we change that, in my opinion, what you have been asking for is not going to happen. That is, that there be more investment in the American private sector and that much of that be in long-term investments instead of short-term. That will not happen just because we say, Mr. President of IBM, change your attitudes. He cannot change his attitude. He can't change his attitude, because his stock is predicated—it predicates his future and his company's future and stock value is predicated on the wrong thing, because the tax incentives are in the wrong place and reward the wrong behavior.

So I would hope that we would not get as much tax imposed now under this plan. If I were advising the President and he wanted $295 billion in new taxes, I'd say at least do it in two pieces so that you insist that Congress get health care costs under control before you put the tax on. Health care costs are not under control. They are the one expenditures that causes the deficit to go out of control. Our President has said that. If he said it once, he said it 50 times

in his campaign. And yet, when you look at the package, if you put the tax on right now, $295 billion retroactive, and you do not have a plan for controlling health care costs, I just don't think that's going to work and I think when the market finds out about it, it isn't going to be too good.

It's sort of saying, Mr. Regan, that when they're going to find out that this is the facts, it's the fact that you said we hope it didn't happen, but it is a fact.

I thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Bennett, did you want to make a comment now or wait for the questions?

OPENING STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Let me apologize to the committee for having to come in late and draw a quick parallel with why I was late. I was down in the Energy and Natural Resources Committee, where we were talking about the Mining Act. And it's a microcosm of, I think, the major issues that we have to address here.

Senator Bumpers wants to amend the mining law to increase revenue to the Federal Government in this time of deficit difficulty, by saying, well, let's make people pay a royalty on the material that they take from the public lands. It's only fair. It's public land. Therefore, the public should benefit and not just the mining companies. And that's an issue that Senator Bumpers feels very passionately about.

Those of us who are from the Western States are pointing out, wait a minute. Most of these operations are marginal, at best. You put another 8 to 12 percent on gross, in a world economy, you've just priced them out of existence. Jobs will disappear. Unemployment compensation charges will go up. Instead of increasing Federal revenue, this will decrease Federal revenue.

Now I don't want to rehash the arguments back and forth here, but this is a demonstration of the kinds of issues that this group has to face. And the only comment that I've made again and again and make it here, is that we must recognize that the economy is not a mathematical model, where you say, OK, let's put on such a such percentage of this activity and it will yield *x*-amount. The mathematics proves it. The economy is an organism and when you put some kind of antibody into one part of the organism, it affects the other and the whole performance is affected.

That's why I'm delighted to see the kind of emphasis you're placing on training and education. In my opinion, education is the long-term survival issues in this country because if our work force is not capable of competing globally, we will end up a second-class nation. We will end up like the British, with a great heritage and a great past to talk about. But being left behind in the competitive pressures of the future.

So, Mr. Chairman, I applaud the group. I'm delighted to be here. I apologize for not having been here through all of the activity, but hope that as we talk about these competitive issues, we can always think of the economy as an organism rather than a mathematical model and realize that sometimes it's easy to say, well, we could do this and produce this kind of a percentage increase, and then end up 5 years later realizing that we'd hurt ourselves and pro-

duced a net revenue decrease by some of the things that we did in a short-sighted fashion. Thank you.

The CHAIRMAN. Thank you very much, Senator Bennett.

Let me say for the committee, we've checked with OMB this morning and they've informed us that the earlier budget document that was raised by Congressman Cox was a mistake. It was meant to address the Quayle Council on Competitiveness. They've indicated that they're sending us a letter to that effect, just to nail that down, and that the budget document which is going to be released next week will correct that error. So I think that answers that question.

Let me go to yesterday's New York Times. And I trust that most of you had a chance to see it. There's a front-page story that says, "New Jobs Lack the Old Security in a Time of 'Disposable Workers.'" It's a dateline, Toledo, OH, story, but it's very well done. And I'm going to just read a few paragraphs from it because I want to juxtapose what appears to be happening out there with what you've all laid out here today in terms of where do we go from here and how long does it take us to get there?

I think it's fine to have the year 2000 as a target date for certain things, but in real time, we're trying to absorb these massive global economic changes. I think we've somehow got to connect this strategy up to now and not at some distant point in the future.

And I want to just read here just a little bit just to give this as a predicate for a discussion on this point. It starts out, employment agencies call them contingent workers, flexible workers, or assignment workers. Some labor economists, by contrast, call them disposable and throwaway workers. Whatever they're called, their numbers are climbing. Federal figures are sketchy, but about half the jobs people have been getting in the last year are part-time or temporary or involve other unconventional arrangements. That is up from less than a quarter of the new jobs a decade ago. So this tracks these other long-term trends.

Most of these new jobs pay less than regular jobs and few come with good benefits. The standard American job with a 40-hour work week, medical benefits, and a pension at age 65, is on the wane. The entire system is fragmented, says Labor Secretary Reich.

Audrey Friedman, an economist for Manpower, the big temporary help company, said, "The labor market today, if you look at it closely, provides almost no long-term secure jobs. It's a market in motion."

Then if you go over to the inside, it says this. "Labor market specialists say the expanding nonunion retail stores, service businesses, and small manufacturers are the ones that do employ such workers."

State officials report a smattering of offers of very good jobs requiring high skills and years of experience and paying $12 to $20 an hour, few of those, and a surge in offers for low-skill, low-paying jobs. And then they give two examples, and then I'll just finish up with two other little paragraphs here.

The area's biggest new employer is the Meyer discount food and department store chain, from Grand Rapids, MI, expanding, obviously, down into Ohio. It is hiring nearly 3,000 workers for its four giant stores it is building here. Nearly all the jobs are part-time

and the pay is $4.30 to $4.40 an hour, 5 cents to 15 cents more than the Federal minimum wage.

The second biggest new employer is an air cargo company, Burlington Air Express. Burlington will soon have more than 1,200 sorters working 3-hour shifts 5 days a week. The pay is $8 an hour to start or $120 a week. Burlington's job advertisements say applicants must "be able to lift 70 pounds consistently." Obviously, loading things into these aircraft.

State officials say that companies have little choice but to pay wages as low as their competitors.

And then I'm dropping down to the last paragraph. This is someone being quoted who is the manager of the Toledo branch of the Ohio Bureau of Employment Services. He's been at it for several years.

He makes the point, the past versus now. He said, opportunity, that's the thing that was there in abundance when I was 18. He's now 50, so he's looking back in time. But then he says this, and I quote:

> The whole middle of the job market is gone, the $8 an hour to $13 an hour jobs, those middle, family supportive jobs we've lost.

And it goes on in this vein. It's a very long story. For the New York Times to feature it on page 1 because the New York Times, even though it's a national paper, can be very parochial and it's nice to get them out to Toledo to take a look at what's happening out in the rest of the country. But they've given this article a lot of attention.

Let me tell you the problem that I see. I'm frankly more concerned about the dimension of this epic change that we're caught up in, these anemic productivity figures, this terrible trade deficit, these huge structural fiscal deficits, the educational and training deficit in terms of what we're finding. You point out that roughly 20 percent of the work force is functionally illiterate. It's in your findings now.

I look at all of that and I say to myself, given the new President, the new mood, hopefully breaking the gridlock and so forth, we're going to now move into these things. We're going to try to incentivize in a different way, try to get more private sector job creation going, which is obviously the key to it.

But I don't see the job creation happening. Even last month when we got the high number on new jobs, it turns out that over half of those were part-time jobs. In the State of Michigan, 89 percent were part-time jobs. I think they fall into this category of the kinds of jobs such as are cited in this article.

What I'd like to have you tell me is this. How do we bite into this problem in a more immediate way? We've got all these people out there right now that are trying to provide for themselves, provide for their families, get a little economic traction, fit into the system. We've got a lot of workers coming out of GM, coming out of IBM, coming out of the defense industries, coming out of banking consolidations, and so forth, that are being thrown into a surplus labor pool.

I don't know how many people ITT is hiring right now, and maybe if you are hiring, you're one of the few big companies that is. Most are not. In the name of productivity, everybody is squeez-

ing down and you've got this enlarging pool of workers, some with great skill, floating around, not getting reabsorbed. And what job creation there is that's taking place in a significant amount, seems to be essentially at the low end of the scale.

Now, how do we bit into this problem in terms of job growth over the next 6 months, 12 months, 18 months, 24 months, 36 months? Help me get that time period, the next 2 to 3 years into focus, and then we'll move on to what happens after that, to the year 2000.

But how do we get some authentic job lift, private sector job lift going at jobs that in fact can support a family and not just something that leaves you threadbare at the end of the week and you've spent all your money just getting to and from work and eating, putting a roof over your head.

Mr. Bergsten.

Mr. BERGSTEN. I do think, Mr. Chairman, that's exactly what our whole report is aimed at. We have been deeply concerned with the very problem that is underlined in that article. We highlighted those structural charges in our recitation of the statistics, and you have reiterated them.

Over the last 20 years, the average wage is down for a very large majority of the work force. Lynn Williams elaborated on that. Frankly, we don't see any alternative to adopting the kind of comprehensive strategy that is included in our report and that I summarized very briefly earlier. It's a multipronged problem. And it requires, at one level, investment in the capabilities of the work force—the supply side of the equation—and that means education and training. As Lynn was saying on the training side, and as I summarized very briefly on the education side, we are falling down terribly.

The CHAIRMAN. But let me just stop you there. I can see that category of undertrained, undercapable worker in terms of skills. We've got a huge inventory of trained workers, people that have come out of jobs where they had 20, 30 years of experience. We've got a lot of people who have been through job retraining programs. I got a letter from a guy the other day that's been through three job retraining programs, has a graduate degree, and still can't find a job. In other words, I can see the slice that has to do with the worker that really doesn't have a marketable skill.

I'm seeing an even bigger problem, or at least a very large problem, of a whole lot of workers all across the country who have job skills and can't fit into the economy. And the question is, can we do something about that over the next 1, 2, 3 years? And if so, what?

Mr. BERGSTEN. I was just first addressing the supply side, and only let me make one more point on that.

As Lynn observed, even a lot of workers who are well trained in a given line of employment may have to retrain for a new line of employment as the structure of the economy changes. That's the issue of lifetime learning, the retraining of dislocated workers that Lynn talked about. He has done a lot to develop thinking on that issue, and his union has contributed greatly as well.

But then, critically, comes the demand side of the equation, the side you are emphasizing, that of creating the jobs themselves. I guess that if we have any difference with you, Mr. Chairman and

Ned Regan mentioned this earlier, it's on how fast one can turn that around.

It is true that you can enact Government spending programs that will create more temporary jobs on a short-term basis. The President has proposed some, and they will have a social benefit. No doubt about it.

But we thought about this long and hard in our group, and we believe the problems are long-term and structural. And so if we address those problems now, at least our way of thinking, then after 2 and 3 years we will start to have a better chance to create the kind of jobs you want, in terms of both permanence and high wages. That's why I emphasized in my remarks earlier today the need to stimulate private investment, because, as you said, we need to create private-sector jobs. That's going to require private investment.

The CHAIRMAN. Should we have a huge private sector incentive? Should we have a series of additional, say, tax incentives, tax expenditures that are connected to job creation and employment?

Mr. BERGSTEN. Yes.

The CHAIRMAN. And front-load an economic recovery where you reabsorb? I mean, if you've got to retrain, re-educate, whatever, but reabsorb your people. I'm not sure that we can afford a strategy that allows millions of people out there to kind of drift along until, finally, they're able to somehow attach themselves to a job system that is indifferent to them now and, in some respects, just not responsive to their requirement to employ their skills.

Mr. BERGSTEN. Rand hires and Lynn organizes, so they can probably——

The CHAIRMAN. Let's go to Rand.

Mr. BERGSTEN. Let me say one thing. The simple answer to your question is yes. And that's why we suggest a much more ambitious program than the President has proposed to stimulate private investment in equipment. That creates jobs. It creates high-wage and high-skilled jobs.

We wouldn't do it, frankly, on a temporary basis, as the President's proposal does, because there's a lot of evidence that the planning horizon of companies is 2 years and more. Rand ought to talk about this. If you do it on a temporary basis, you may not get very much of a result. We want to raise the level of investment in the economy on a permanent basis. That is what we think will create jobs for the long run.

The CHAIRMAN. Let me just finish up with this and we'll go to the colleagues.

Mr. ARASKOG. Well, Senator Bennett started to say it, and I'd like to emphasis the point. We try to run too much of this country with taxes. An example is the tax you referred to, such as putting special taxes on the forest products industry. Trying to tax industry to pay for the Federal bureaucracy, which is where a lot of it goes, is a real problem.

In New York, our company owns hotels. We've been employing people, Senator Riegle, in the hotel area. We're famous for the time in Chicago when we had only 1,000 positions for the 10,000 people standing in line.

The CHAIRMAN. I remember.

Mr. ARASKOG. We're even more famous in Australia. There, unfortunately, we also opened a hotel in the middle of a recession, hired a lot of people and trained them.

But in New York City, we now have a 21 percent tax on hotel rooms over $100. This does more damage to jobs than we can imagine. These are jobs that have health care related to them. They're permanent jobs. They're mainly not these part-time jobs. But because someone up in Albany decided they needed more tax money to support that structure up there, we now are boycotted by the American Convention Association in New York City. Conventions we could get are going to Chicago. They're going to Washington. They're going to Las Vegas. Primarily because of taxes.

I just wish that we could reverse the process, but I don't know how we can. We put luxury taxes on yachts and put a whole bunch of people out of business and lost a lot of jobs, and we thought it was great because, boy, we're taxing rich people.

We did it in New Jersey with truck taxes and we then found out everybody ran through Pennsylvania and New York to buy their trucks. New Jersey was soon in trouble, and the Governor had to remove the tax. Every time we sit down and try to figure out how to use taxes to do something, I wish there was an opposing side that sat down and said, what kind of problems are these new taxes going to create?

The CHAIRMAN. Let me ask you this, then. I'm sympathetic to what you say, but then—you carry some burden to answer this question.

We cut taxes in 1981. We had a big tax cut. And here's the spreadsheet from OMB as to what the revenue loss has been from the Government. It's suppose to be revenue neutral, as you know, under supply side economics.

The cumulative revenue loss from the Tax Act of 1981 through just 1990, was $1.764 trillion. Now that money went out. It didn't come into the Government. It stayed out in the private sector. Some of it bought the yachts. Some of it went here. Some of it went there, and so forth. You can add easily another $500 or $600 billion for the years 1991–92, which are not in these numbers. So you've got $2½ trillion of revenue loss. Now that was out of a tax reduction program. I guess I would have to say——

Mr. ARASKOG. You know why?

The CHAIRMAN. Well, but let me just pose the question. The fact of the matter is, with that tax reduction program, I'm wondering why, even in an inefficient way, that lowering of the tax burden didn't work its way out through the private sector and do more job creating than it obviously did. It didn't do much job creating.

Mr. ARASKOG. Because, Senator Riegle, we put the emphasis on debt deductibility. The 1980's were fraught with debt deductibility, take-overs and LBO's. No one ever thought, why don't we limit debt to 50 percent and equity to 50 percent? No revenue came in. You noticed several companies were taken apart. RJR Nabisco, for one, the most famous one.

The CHAIRMAN. Right.

Mr. ARASKOG. With RJR Nabisco previously paying tremendous taxes to the Federal Government. It all disappeared as debt in the LBO. At the time everyone praised it.

What we went through in the 1980's in terms of revenue, could have been different: we could have had single taxation of dividends instead, at the corporate level or at the individual level.

There were a lot of things that we could have done, but we didn't have a long-term, sensible tax plan. We had tax reductions in some areas. For most corporations, for ours, for example, our taxes went up. We lost deductions all over the place while our rate dropped. It didn't do anything for us. And we have the same kind of statistics as you have. But we were not heavy with debt. We were reducing debt.

So I think you've really got to look at those numbers. They were a serious part of what happened to America. It wasn't intended but it happened. We put all the deductibility on debt. We put no emphasis whatever on equity and now we're trying to reverse it. But that's where your trillion dollars are.

Mr. BERGSTEN. Mr. Chairman.

The CHAIRMAN. Just one second. I'm sensitive to the fact that the other members have not gotten into the act here for some period of time. I've just spoken. You've just spoken. I want to get Senator Murray and Senator Moseley-Braun in. Why don't I yield at this point? I'll come back at a later time because I want to hear the two of you respond to this.

Senator Murray, let me invite you to get into this discussion.

Senator MURRAY. Where to begin? Mr. Chairman, I'm glad you raised the point that you did with the article that you talked about. And it seems to me that one of the things that we talk about, the education component, we talk about tax incentives.

But the one thing that I think we fail to do is define for ourselves where our economy is going to be in the future, where our jobs are going to be, what the job markets are. How do you train and educate and retrain workers if you can't tell them where the job market is going to be in the future? And we haven't done that.

I don't know if you address that in your report. I haven't seen it specifically. But I know when my son looks at me and says, gee, why am I taking this class, it's tough for me to say to him, well, there's going to be jobs there that you will use that class for, because we haven't done that as a country.

I'd like you to respond to that, and I have some other questions as well.

Mr. BERGSTEN. Lynn, you're the expert on that.

Mr. WILLIAMS. Well, I wish I could answer that question. Obviously, that's the most important consideration, where the jobs will be. I think we have some general ideas about where the economy is going to go, but it's difficult to be as specific about that as we'd like to be. I couldn't agree with you more. Let's go at it and see what we can do to identify how the future develops. But I think we have to recognize, however, we're living in a very dynamic kind of global economy, a very dynamic situation, hopefully, internally, if we're able to put all of these things together.

I think we do understand some general skill directions. I think it's common knowledge we're going to have a lot of high-technology work in the economy in the future. I think you'd better know something about computers if you're going to go out into this world.

Certainly, with my experience in retraining over the years, it's always been much more useful for workers to have access to retraining than not have access to retraining, to not have opportunities to learn new skills. It's better to have one's children educated than not educated. I think the statistics all identify that. And the more flexible that kind of training can be and the more it can be used in a universal range or a wide range of applications, the more helpful it will be for those people.

So I think it's a mix of studying the future more carefully, thinking about where job creation will be more carefully. The heart of it, in my view, is that we have to get back to making things in America. We have to get off this notion that we're going to have a prosperous economy just exchanging information or selling each other stuff in part-time contingent jobs in department stores all over the country.

What we need is to get back to creating wealth, back to making something out of raw materials or out of semifinished materials. I think if we begin to get real focus on rebuilding our manufacturing industry, rebuilding our rust belts, building the new kinds of manufacturing industries and learn how to do that well, why, then we'll get a much better handle on where the future is really going and be much more effective competitors in today's global economy.

Mr. BERGSTEN. I would like to underline one thing that Lynn said. I'm afraid you can't give your son a satisfactory answer. My son asked me the same thing. I couldn't say where the jobs are going to be. They're changing too fast. It's a dynamic, rapidly changing economy, both here and globally. And that says, general education, flexibility to shift, lifetime learning and an ability and willingness to continue to upgrade and amend the skills developed early in life are going to be essential.

Maybe that's the lesson for our kids. They're going to have to have that degree of flexibility and willingness to change gears in life, given the kind of economic future they will face.

Senator MURRAY. I agree, but I think the question is more than just how do we be competitive. It's what are we going to be competitive in. And I think that we cannot define how to be competitive until we do a better job of that.

I wanted to jump to another area. As I was looking through the report, I was very pleased to see, under some of your proposals, that you recommend expanding the WIC program, health care for children, immunization for children, fully funding Head Start. And I know these are all part of President Clinton's package that somehow we got to debating today, and I'm not sure how we get there. But I wanted to ask Rand Araskog a question. I've heard you throughout your testimony, in response to the question just now, talk about how taxes hurt people, and you referred to my State and some of the Btu taxes, and if we do that, then we won't be competitive. I looked at a number of the recommendations in the report that says that we have to invest in people. How do we do that if we just say that we can't pay for it?

Mr. ARASKOG. I think it's all in how you do it. The energy tax has several ingredients to it and I'm sure they're going to be debated by your committees. You will want to consider a gasoline tax at the pump, import taxes, Btu taxes, how you measure them, and

how you affect one industry versus another, where one industry uses very little energy and another uses tremendous energy to convert materials.

These are all things that you're going to have to look at because you are penalizing certain companies, and certain industries in unusual ways. I think the important thing is that there be clear understanding as to what you're doing.

It isn't always that clear. For example, in the wood products field, you can put on a Btu tax that excludes use of a tree bark that you create when you cut the wood. So you use the tree bark for energy, then that's not taxed. That's one answer. If you include all materials that you're going to use for production of pulp, then you include the tree bark that you're creating, too, which is a disposable product that industry has learned to use to reduce their energy costs and you're going to tax that too, you're going to add another element.

Senator MURRAY. You would agree that we do need to make some investments in people, whether it's education or immunization or Head Start.

Mr. ARASKOG. Absolutely, 100 percent. 3,000 percent for the Head Start Program. My wife was a teacher in it. I absolutely believe in its effectiveness. It should have been increased before. I'm delighted with what the President has done. Parts of the President's expenditure program I think in the main are tremendous. I think the parts on how we see competitiveness and pay for those programs is another issue. That side has to be looked at just as tightly and closely.

This Council has recommended, not totally unanimously, but that we should eliminate the deficit. I think the prospect of just reducing it over a period of 4 or maybe even 8 years is not enough.

I read in the paper recently that this can be wonderful from one point of view, but very tricky from another. Some states are going to plastic credit cards for people on welfare, combining their benefits that have to do with food stamps, with child support, and individual support—all in one credit card to be handled on a monthly basis.

You know, there are a lot of working people in America, and Lynn is the principal representative of them, who've got the same credit cards, but they've got to put the money in. And in the case of welfare, we're putting the money in. While it's humanitarian, I think we have to be awfully careful how we control it. I think that's one of the biggest concerns that I personally have, increasing taxes by $292 billion.

Senator MURRAY. I wanted to hear what Mr. Regan had to say on this.

Mr. REGAN. I think the answer is you cut spending in less vital areas. I think Senator Domenici mentioned it. You've got a lot of spending programs and everybody has their lists and they've been nibbled at and chopped at and I, again, commend the two budget committees in their budget resolutions for going further than the President. But clearly, the entitlement programs and other support programs for certain industries are, at least in my opinion, of less priority than the programs you've mentioned.

It isn't just a case of trying to find the right tax to support increases in Head Start and other programs. It's a case of trying to find the programs that are of less priority to cut. I just think it's as clear and perhaps as difficult as that.

The CHAIRMAN. Thank you. Let me switch to Senator Bennett, and then I'll come to Senator Moseley-Braun.

Senator BENNETT. Thank you, Mr. Chairman.

I hesitate to clash with you on a statistical matter, but you made a comment that I do want to at least put a different view on the record.

When you quoted the numbers of the $1½ trillion revenue that was forgone because of the tax cut the last time the Congress addressed this issue, if I may, Mr. Chairman that represents the point I was trying to make. That is a mathematical calculation from a mathematical model, where they say, all right, if we had this level of tax revenue on this kind of economy, it would have produced this kind of result. And their mathematics are impeccable.

However, look at it the other way. We had those massive tax cuts. Prior to that time, the Federal revenue was roughly 19 percent of gross domestic product. After the restructuring of the tax circumstance, Federal revenue became 19 percent of gross domestic product and gross domestic product grew very, very rapidly during that period.

So the argument could be that while the tax rate came down and therefore, the mathematical model shows losses, the tax revenue in actual dollars went up quite dramatically during that period, stayed stable at 19 percent of gross domestic product, while gross domestic product was growing, and therefore, the argument could be made that the tax cuts worked. The problem was that as far as the deficit was concerned, spending went from roughly 20 percent of gross domestic product to where it is today, which is 24 percent of gross domestic product, and this is the issue that Mr. Regan has been raising.

So, without arguing with you, this specific or that specific, I simply want to restate the comment I made in my opening remarks, which is that the economy is an organism, not a mathematical model, and we have to recognize these kinds of ebbs and flows that occur. And if we're addressing the basic issue of competitiveness, do so in that context, rather than the kind of intellectual gridlock that I saw in the Congress prior to coming here. Naturally, it will all disappear now that I'm here.

[Laughter.]

The CHAIRMAN. Well, we're hoping so. Now that you're here, we're really hoping to break this thing wide open.

[Laughter.]

Senator BENNETT. The kind of intellectual gridlock of people quoting numbers back and forth at each other from these theoretical models and instead, recognize that in the organism that is the economy, there are all kinds of things going through the body politic or the body economic, if you will, that would change this.

The CHAIRMAN. But if the Senator would yield.

He's not asserting, I wouldn't assume, that when we were back in 1980, we had a cumulative deficit in the area $1 trillion and now

we're up to $4 trillion. That isn't the result of a mathematical model. That's the result of the way the economics worked for that roughly 12-year period of time.

It really left us with a—it looks like a whole series of structural deficits. Not just the fiscal deficit, but the deficits they're talking about—job deficit, productivity deficit. You can just sort of go on down the list.

Senator BENNETT. Sure. But what I am suggesting is that it's not due to the tax cut. There are a number of other things.

The CHAIRMAN. Maybe it is or isn't, but it doesn't sound as if the tax cut solved it, either, then, does it?

Senator BENNETT. Well, the tax revenues, in terms of percentage of Gross Domestic Product [GDP], remain virtually stable. The problem was that spending went up from roughly 20 percent of GDP to 24 percent. The other factor that, if we're going to get into this, inflation came down very dramatically. Unpleasant as it is to face, inflation helps debtors. The Government is the largest debtor.

The deficit would have been substantially lower if inflation had been substantially higher during that period because revenues would have been inflated and we would have said, OK, we've got deficit reduction.

These are all of the circumstances that have to be addressed when we're looking at these competitive things. There are no quick answers. I guess that's my message, that some of the models that people throw at us don't do us a real service when we're trying to address these fundamental questions.

The CHAIRMAN. If you'll yield on my time, and then I want to sort of—you and I can debate this back and forth on the subway car, and maybe for the rest of time.

Senator BENNETT. I simply wanted to get it on the record.

The CHAIRMAN. But the thing that we're left with, and this is where I think we need help, we need help from this group, from yourself, from everybody that wants to participate in the debate. We have this problem where we've got a lot of people out in the society today that need to work, want to work, have job skills to work, are really quite desperate to work, and there's a lot of them, and we don't seem to be able to accommodate them in our work force. There is this gap and it's a real problem.

I don't think we can have an answer that kicks in the year 2000 or a long time down the road when somebody's got to put shoes and clothes on a kid today and eat today and tomorrow and the next day and have a roof over their head, and if they're going to have a car to try and get to and from work, pay the car insurance now and be on the outside of the economic system and not in it.

I'm open to any set of answers that will work. But I'm very concerned that we've got a pileup of a lot of unused people who want to work, need to work and, in many cases, have very accomplished skill levels, but they can't be—they're not getting slotted into the system. They're getting slotted out of the system.

Senator BENNETT. Well, if I may, Professor Bertsten's comment and then I'll be quiet.

The skills that they have may no longer have any value. It's not just a question of retraining. Sometimes it's a question of changing careers totally. To give you a vignette from my own experience. The

largest customer of the company that I used to be the CEO of is Amway Corp. We were a little concerned about recession. And the people at Amway smiled at us and said, our greatest recruiting occurs in times of recession. More people decide to enter our business because they can't find jobs any place else.

I had an experience of going to an Amway Diamond Convention, at which each new Amway Diamond tells a little bit of his or her history. Virtually every one of them spoke of having lost a job. And many of them said, the best thing that ever happened to me—I remember one of them said, the best thing that ever happened to me was being fired as an air traffic controller because I was earning $30,000 and $35,000 a year as an air traffic controller. Now I'm earning $100,000 as an Amway Diamond and this is the best thing that ever occurred.

Now I don't think they're the same skills. I don't think being an air traffic controller really contributed very much to his being a successful Amway distributor.

The question that Senator Murray raised, and the professor referred to it, and I say to my own kids, you have got to get the mindset early in your educational circumstance of recognizing that any skill you learn anywhere will be obsolete within a few years. So the most important thing you learn is how to learn and how to retrain yourself, and that is the basic thrust of what we've got to do, with what Mr. Williams and others are talking about, if we the economy is going to survive.

The CHAIRMAN. I might just say before yielding, the Amway Corp., of course, is a Michigan Corp., which I know quite well and have worked with over a period of time.

Senator BENNETT. They're very good customers.

The CHAIRMAN. They are, and those that make it into the Diamond category are really quite extraordinary.

It's very interesting. If you look at the way their process works to bring people in and how many people come in and wash out and then climb this cumulative ladder to get to the Diamond celebration that you were invited to, it is a very small fraction of a very large number of people.

So there's a lot of churning there. And that's not to—that's the nature of the business. That doesn't fault, I'm not finding fault with the person that becomes the Diamond person, but with all due respect, we've got a problem today where we can't absorb all the people that need work in that company or even all the other service companies that are out there.

We've got a serious underemployment, unemployment problem, and it may not affect us directly in this room, and we may be a little too remote from it, and we're not solving it, insofar as I can see.

Mr. BERGSTEN. Senator, if I could——

The CHAIRMAN. I want to go to Senator Moseley-Braun here, too.

Mr. BERGSTEN. I wanted to try to answer your question in one sentence. The second objective that we laid out in our goals for the economy was to achieve sustainable, long-term economic growth of 3 to 3½ percent a year. Unless we do that, we will not generate job growth of the type that you want. That rate of growth reflects a combination of productivity growth that upgrades the quality of

the economy and the wages it pays, plus the absolute level of growth that will create enough new jobs on an ongoing basis to achieve full employment.

To do that we need the supply side measures that we talked about—education, training, and the like—but the demand side has to be there as well. And that's why we believe there has to be a long-term, sustained growth rate at that level. That's an important recommendation, because most economists are now saying the long-term, steady-State growth potential of the United States is 2 or 2½ percent.

If we accept that level of growth, we'll never answer your question satisfactorily. And that's why our group, going beyond where we were a year ago, after thinking about this some more and addressing the questions you raised a year ago, set a national growth target which represents the demand side of the equation. I just wanted to stress that. Without that, it won't occur.

The CHAIRMAN. I appreciate that point. Can I get Carol Moseley-Braun in here, and I know Lynn Williams wants to make a comment.

Senator MOSELEY-BRAUN. Well, first off, I'd like to thank these gentlemen because this has been a most interesting conversation this morning. I've had an opportunity to leaf through and peruse your recommendations.

In the conversation, I'm reminded—Senator Bennett talked about vignettes.

I was reminded sitting here, listening to this conversation, about a science fiction story in the Hitchhiker's Guide to the Universe that talked about a dying planet. The planet was peopled almost exclusively by consultants and salesmen. Of course, they didn't make anything, so the planet itself was dying out.

Restoring our productive sector is really a critical issue because that is where the high-paying, high-wage, high-productivity jobs, the jobs with some security, will exist in the future. Your report recommendations speak to some of that. But I'm concerned with an aspect of it having to do with job creation through expansion and growth through an enhanced export sector.

I think that there is a tremendous—well, I don't know for certain. I'm not an expert. But it just seems to me that there is tremendous potential for us in an enhanced export sector.

We know that, you mentioned in your comments, Mr. Bergsten, specifically of export barriers. If you could comment because I didn't see it—again, I just perused this. I didn't see specifically what kind of export barriers you referred to. That would be my first question.

The second would be what specific recommendations would you have for the G–7 with regard to global growth, recognizing that both Japan and Europe are in recession? Germany is in bad shape. What specifically would you recommend with regard to the G–7? And also, whether or not you would see some potential in new markets that we have not competed in and haven't been active in.

Those are the two questions specifically, and then, just kind of as a footnote and maybe someone else—I don't know who wants to respond to this. I come from a background in State government, State and local government. And one of the things that I've seen

is a proliferation of State export, State boards, competing almost with the Federal efforts. It just didn't make much sense to me to see that kind of duplication, replication of effort at the State and local level when it seems to me we could more sensibly deal with export issues specifically from a Federal level.

That's three questions.

Mr. BERGSTEN. Let me try to tackle all of those. On your last question, I think it's very understandable that, over the last decade or so, States have been creating export boards, and even export financing banks. The reason is that the Federal Government has fallen asleep at the switch. You're absolutely right. It is the job of the Federal Government to do it.

When I was running the International part of the Treasury in the late 1970's, we increased the Export Credit Program tenfold from 1977 to 1981, and the result was that the United States was in current account surplus. We had an export-led boom in the latter part of the 1970's. The overall growth rate of the economy wasn't so great, but the great bulk of the growth we did get came from export improvement. The country in fact was running a current account surplus and was the world's largest creditor country, not a debtor country at all, and there is a two-way causal relation between the two phenomena.

Then what happened, to quote from David Stockman's memoirs, "is that the administration in 1981 tried to abolish the Export Credit Program. They cut it down to virtually nothing. The rest of the world kept expanding theirs, and the United States went into trade deficit in excess of $150 billion by the middle of the 1980's." There are lots of other things in the story, but that's part of it.

The States, as frequently happens, felt they had to step in when the Federal Government went to sleep at the switch and didn't fulfill its responsibility. We're proposing in this report that the Federal Government take major initiatives in this area. But I'm sorry to say this is one area where the current administration seems, so far at least, not to have moved, and they need to do so.

On the specifics of the export disincentives that I mentioned, at the Institute for International Economics are about to publish a major study that analyzes the whole range of those disincentives and tries to quantify their adverse impact on the American economy. We could be denying ourselves as much as $30 billion in exports per year because of these disincentives.

We have anachronistic export controls not only on sales to enemy countries that aren't enemies any more, but also on sales to allied countries so that they can't sell to enemy countries that aren't enemies any more. It is bizarre, yet very little change has been made.

Senator MOSELEY-BRAUN. Will you make that report available to the committee?

Mr. BERGSTEN. Indeed. We will make that available very rapidly. In addition, our Trade Policy Subcouncil offered some very detailed recommendations for reforming our export control system, and we'll give you a fairly detailed blueprint.

There's an enormous amount that we can do ourselves to increase exports that is not to say that we should in any way reduce the pressure on Japan or other countries to open their markets to our exports, but there's a lot that we can do ourselves to open ex-

port markets to our own companies. And that relates to the point I made about export psychology. Only 10 percent of American companies export.

When you say there's a tremendous potential, you couldn't be more right. Only 3 percent of American industry is active in more than five countries around the world. Yet that's where the market is. The world market is four times as big as the American market. It's where most of the growth has been the last 10 years.

We have to change mentality of American industry, and Government can take the lead by opening up its own programs, providing credits, and getting out of the way in the case of the export disincentives.

Now, what can the global growth strategy be, and what can the G–7 do? In the case of Japan, it is obvious. Back in 1985 the United States had a huge trade deficit, and every other country was in surplus. It was clearly an American problem. We had an overvalued currency. We had no export credit programs. We had a huge budget deficit. We had to make adjustments, and we began to do that, but the process, to put it mildly, is not complete.

Today, it's the reverse. Japan has a huge and growing surplus and everybody else is in deficit: the United States, Germany, Europe as a whole, Korea, Canada, you name it. Everybody else is in deficit that indicates that it's a Japanese problem.

The first part of their problem is that domestic demand growth in the Japanese economy has been essentially zero for the last couple of years. Yet, they are running a budget surplus equivalent to about 3 percent of their total economy.

In other words, Japanese needs and can afford a fiscal stimulus. They need to inject demand into their economy to get domestic growth rising. Their imports have actually been falling in absolute terms, not just in relative terms, and their firms once again have had to emphasize the export market because there's no growth in domestic demand. So their domestic demand growth has to be stimulated.

We know, incidentally, that this works because it was done in the late 1980's, when the Japanese surplus came down from 4 percent of their economy in 1986 to only 1 percent in 1990. It does work. The combination of domestic demand stimulus and appreciation of the currency clearly works. It brought their surplus way down, and it can do it again.

But the Japanese have not taken action. That is what the G–7 should be pressing. That's what the United States should be pressing, in my view, as its top priority with Japan.

In Europe, the problem is a little more complicated, because Germany itself is suffering an inflationary impact from the reunification of the country. They made some very bad economic policy decisions related to reunification, and today, not just by German standards but by anybody's standards, Germany has high inflation.

People don't realize that Germany has the highest inflation rate of any G–7 country except Italy, and they're within one point of Italy. Germany has a higher inflation than the United States, Japan, Britain, or France. Therefore, their interest rates are very high, as Ed Regan said before.

What the Germans have to do is in a way what we have to do—bring their budget deficit down. Their budget deficit, like ours, is 6 percent of their GNP. They've got to restrain wage increases—which is a problem there, very much unlike here—and thereby take the inflation pressure off the economy.

If they can do that, and their government is now trying to do it—they've just come up with a solidarity pact that makes some first steps in that direction—then their central bank could reduce interest rates by 2 percentage points or more. And that would stimulate their economy through expansionary monetary policy.

Because of the way the European monetary system works, high German interest rates are causing high interest rates all over Europe. So if Germany can start to get its fiscal house order and reduce interest rates sharply, interest rates will fall all over Europe, and Europe will restore its growth.

I think the way to do that in Japan and Germany is through a cooperative G–7 strategy. I would propose an accelerated economic summit of the heads of state of the seven big industrial countries like within the next month to try to get global growth going, because it's very clear what measures are needed.

The President's program—hopefully as augmented, we hope, by our Council's report—will move the United States in the right direction, restoring our competitiveness, getting our budget deficit under control, and the like. The United States has taken the lead, in essence, in restoring a stable and strong world economy. Now Japan has to stimulate economic growth through fiscal expansion. Germany has to bring its budget deficit down, thereby reducing interest rates throughout Europe. All that, I think, can be done much better and with much greater psychological effects around the world on a cooperative, joint basis among the G–7.

I think the second step in President Clinton's strategy—the first step having been the domestic program—should be to provide leadership for a global growth initiative.

Senator MOSELEY-BRAUN. OK. Mr. Chairman?

The CHAIRMAN. Thank you.

Senator MOSELEY-BRAUN. Thank you.

The CHAIRMAN. Mr. Regan, you make a point in the report. It doesn't endorse the conventional view, the short-term focus and excess trading in financial markets are really at the root of our corporate competitiveness problem. I know there's some difference of opinion on that. But you say the true issue is poor managerial performance.

Mr. REGAN. Yes.

The CHAIRMAN. Could you elaborate on that?

Mr. REGAN. Yes. We think we've shown in our report, our Subcouncil report, and I thank you for calling attention to it, that the so-called short-termism, short-term syndrome, is echoed by underperforming managers. It becomes kind of a distraction, a red herring.

When Merck, to name a company, or anyone of the hundreds of well run American companies, makes a long-term investment where the pay-off might not be for 10 years, we can demonstrate conclusively the stock goes up.

But when an underperforming company or a company with a CEO or a board, or both, that has started to lose credibility announce a long-term investment, the stock goes down and they scream, "short-term pressure."

I think there's three studies in the report that would demonstrate that the competent CEO's, who are increasing in number in this country, have a way of looking through and over the daily volume in their stock trading and quantitative investing and churning techniques and derivative instruments and the distortions they cause, looking through that to the long-term value, the true value of their company, and long-term value of the stock.

Some studies would go so far as to show that there's almost a disconnect between some of the trading and derivative instruments, and the like, and the true value of the corporation. It's almost as if you had two things running parallel. At any rate, if a competent company, competent CEO, good board, makes a long-term investment, the shareholders will support it.

The CHAIRMAN. Mr. Williams, you head the subcommittee or Subcouncil on Training. On page 2 that accompanies the report, you write as follows. You're talking about the drop in real wages.

You say, the drop has been far faster for the bottom two-thirds of wage earners. The gap between rich and poor has been growing. It is greater today for American males than at any time since 1940.

Now when you look at why the bottom is sort of dropping out there, and I try to sort of do it in my own mind. I think about this international economy and the tremendous pressure of foreign competition. Our trade account, roughly a $100 billion deficit, tells us a lot of that story.

What, in your view, is at the heart of the accelerating decline in wages for the 75 percent of our high school students who will not graduate from college and this growing gap in wages between the college- and the noncollege- educated workers?

Mr. WILLIAMS. Well, I think the heart of it, Senator, as I mentioned before, is the failure in America to continue to build our manufacturing sector and the destruction of our industrial base, which we permitted during this last dozen years.

I think very few people in America really realize the extent to which we permitted not just our basic industries, but new industries, all of them to be under attack. At the beginning of the 1980's, they talked only about the rust belt, about it being out of date, and about how we're going to survive with high technology and all the rest of it.

I remember when IBM was pointed out to us as the glowing example of the future. By the end of the 1980's, by the early 1990's, why, IBM and everybody else was in trouble.

I think the heart of this polarization in our economy has been our neglect of our basic industries and our failure to keep up with the leading-edge technologies, with world developments, with our place in the global economy, and all the rest of it.

If I may, I would like to be expansive just for a minute or two about your New York Times article, because I think this all comes together. Another piece of this, frankly, is the decline of the American labor movement. We can have all the productivity in the world. I'm all for doing that. I support my colleagues here enthu-

siastically in that regard, and in quality product and all the rest of it. It's quite conceivable that we can do all that and we can put people to work. But if there's no mechanism by which the working people in the country can insist on their share of that success, then we neglect the demand side of the economy enormously.

I don't think it's any accident that America's most prosperous years were those years when it had the strongest labor movement and when collective bargaining was functioning well in America and was making sure that its share of the success of the enterprises was going to the people in terms of purchasing power, because you have to have a demand side.

Nobody's going to invest in productive enterprises if they don't see any customers out there. If your customers are all working at the kind of low-wage jobs that you and the New York Times article describe, they're not going to buy very many automobiles from Detroit or from Ohio or from Japan or from anywhere else, at $15,000 or $20,000 a smack if they're working in low-wage jobs.

My first reaction to your New York Times article was I shouldn't be sitting here at all. I ought to be out there organizing those folks and making sure that they have some purchasing power and some ability to function effectively on the demand side of this economy.

Another piece of the answer to your question which I don't believe was mentioned is part of our report. It's been a contentious matter in the Council, to some extent, I guess it is throughout the country. But I'm very much on the President's side that we need some short-term stimulus. We need to get some jobs out there immediately in addition to all these other things.

I share the view that there are long-term considerations here that simply must be addressed, but we also need to do something in the short-term. People can't wait, you're quite right, until the year 2000 in order to have a job and a decent income.

With great respect to Rand (we share a great many points of view). I don't mind him and his colleagues paying a few more taxes because I think if those taxes were used, for example, to develop some short-term stimulus and get some jobs in the hands of ordinary working people and give them some chance to get out of this minimum-wage syndrome, which is absolutely disastrous for them and for whatever hopes they have for their children, that money is going to find its place back into the marketplace much more quickly than giving tax breaks to the rich, as we did in the 1980's.

And I think for those who benefited in the 1980's, to now be involved in paying some taxes and getting some stimulus in the economy, would be very good and, in the long run, good for them, good for every enterprise in America.

Mr. ARASKOG. Lynn.

Mr. WILLIAMS. I'd like to say just a word——

Mr. ARASKOG. I don't mind your paying more taxes, either.

Mr. WILLIAMS. Neither do I. You have never in your life heard me running around grumbling about taxes. I don't know how you can have a civilized society if people who earn a decent living like I do aren't willing to put some money into that society. Not just in terms of my own personal bank account, but in terms of the community in which I live, the kind of parks it has, the kind of schools

it has, the kind of infrastructure it has, the kind of transportation it has.

The CHAIRMAN. Public safety.

Mr. WILLIAMS. The quality of life involved in those communities is worth all of us investing significantly. Anyway, I wanted to say just a word in Ned's territory, if I might.

I was on the corporate governance subcommittee dealing with the question about short-termism and long-termism. And I guess it's a matter of emphasis for all of us. I think there is, to some degree, a long-term concern. During the work of that committee, Ned presented a very interesting point. There's a word for it that escapes me at the moment, but the idea that we should be judging our corporations not just in terms of the bottom line and our tradition, but in terms of some of these other qualitative aspects.

There are accounting firms working on this. But the question is how can you let the public know that a particular corporation is a corporation that is investing significantly in training, which represents, where this corporation will be 5 or 10 years from now. It should say a lot about what their stock is valued at now, which is consistent with Ned's point that good management is the key to much of this.

But I found that a very interesting development. I also must say, and this is just talking as myself and on behalf of the Steelworkers, I guess, another element is that we need to find a way in the American corporate structure to have workers represented in some way on corporate boards, either directly or through their own representatives, but in some way in which the workers' influence is felt right at the very top levels of management, because if anybody's interested in long-termism, if there's any group of people in our society who want to see their enterprises successful, not just next year, but 5 years from now and 10 years from now, 20 years from now, it's working people who work for them and invest their lives in them, and the communities in which these enterprises are located.

That isn't the committee speaking. I think we're a footnote in Ned's report on that subject, but I think it's a point worthy of consideration.

The CHAIRMAN. Well, I appreciate your point. I want to just say one thing and then yield to Senator Bennett, and that's this.

Back years ago in Michigan, when the original Henry Ford came down the track, it was a different economic time, but he decided to try a different economic theory. And his theory was that the workers building the Model T's and the other Ford product at that time, that if they earned enough to be able to buy their own product, what they were making, that in fact he could open up a whole new kind of an economic expansion and market for his own products.

So he did the unconventional thing at the time. He actually raised the wages of his workers. I think he went to $5 a day, which at that time broke the pattern everywhere else and everybody else was driving wages down and he had a different idea and he raised the wages. What happened was he created not only a whole new market for the cars he was building, but it sort of set off a large part of the industrial revolution. It seems to me that there is some-

thing in that and what you just said a minute ago, and something that Mr. Araskog said earlier.

I admired so much a year ago when you came in here and said that an American corporation—you spoke as a CEO, as you do today—had really a public responsibility to undertake to create jobs in America. To me it was almost like hearing a new language because I hadn't heard any other CEO say that. And so I've repeated probably 5,000 times since. I've done so in a very affirmative way.

In terms of how we get the economy moving at a faster rate in terms of how do we have a society that's not at war with itself, a Clockwork Orange Society where you're not able to walk the streets and what have you, and there's some measure of equity and some measure of opportunity in this society.

If we've got more people that can buy cars at $12,000 or $15,000, or a refrigerator or a washing machine, or a kid's advanced education to go on to college, as opposed to—the reference was made to the yacht tax.

I'm not here to beat on the yacht industry, but as long as the issue has been put on the table, if you look at the number of jobs that come out of somebody that buys a $500,000 boat—and by the way, the luxury tax on boats doesn't kick in until you buy one that costs $100,000, and then it's a 10-percent tax on the increment. So if you buy a $110,000 boat, it costs you $111,000 to buy the boat because you've got a $1,000 tax on $110,000 boat.

I'm not sure it's a crushing burden, but leave that aside. If you just want to think in terms of economic theory and you sort of play it back through the 1980's and take the personal tax cuts, I am really sort of sick to death of all of the pictures I've seen in Architectural Digest of all of the apartments on 5th Avenue that have been sort of updated to the point of opulence that's beyond anybody's comprehension, where we've got more homeless people today, more people on food stamps, and a lot of other things in this country, and we don't have enough jobs to go around.

We've got a lot of very competent, trained people with good intentions, good work records right now that are being told they're excess baggage. We've got veterans of Desert Storm who are qualified enough to go out and fight for this country in uniform, not all that long ago, homeless in this town right now living in cardboard boxes, two of them interviewed on national television the other night.

We've got a major absence of jobs in this country and a lack of conscience about it, and it really bothers me because I think we're really moving away from what the country is all about, and that is to sort of have some kind of cross-affiliation with one another where we undertake to have policies in place, public policies, private-sector policies that work in a fashion that really spreads the opportunity around and we have a society where people can work, should be expected to work, have an opportunity to work and get ahead on that basis.

You can't hold a family together if people can't work today. You can't say to somebody that's 30 or 35 or 40 years old, who's trained and everything else, can't find a job. It's the most self-destructive thing you can do. It destroys a person's sense of self-worth, their self-image. You can't go home to your family at the end of the day

and say, I'm sorry, I can't really find a way to make a living to put food on the table and to take care of the needs of my family.

To me, it's sort of a crime against our country, if we are that incompetent and that indifferent and that insensitive to that problem when it starts to affect millions of people in the society—and I'm talking about people all the way up and down the scale.

We've got people coming out of the defense industry today with Ph.D.'s in computer science. They're not getting plugged back in.

Fortune magazine just devoted a cover story to people who are losing their jobs in the $25,000 to $150,000 a year job category and are all excess baggage. They're out there floating around right now. There's a lot of talent in that group. Nobody wants them because the system is functioning so inefficiently, that we can't absorb our own people.

Now we can say, if we want to be abstract about it, look back and say, well, labor is just another part of the mix of resources, capital and machinery and so forth. If we can't absorb them, so be it. We'll eventually work it out.

I think that's a crass, wrong, self-defeating view. And when I have people come in here and tell me who are dealing with social problems in the inner-cities and say today that more and more, the urban youth and the underclass in our urban centers, by and large, don't expect to live beyond the age of 25. They don't expect to live beyond the age of 25.

The notion that they are feeling irrelevant to the kind of an economic and work system that we're talking about today is the difference of somebody living on this planet and they might as well be out on another planet. So we've disconnected ourselves from our own realities. My hometown—not my hometown, but my largest home State city, the city of Detroit, has the highest rate of child poverty of any city in the country right now. Flint, my hometown, is the fourth highest city on the list.

The deprivation that's accumulating in that underclass problem is so serious, and there's a tendency—I won't say here because you're seriously engaged in the issue, and I applaud you for it. Thank God that you are.

But there is a disconnect between what's actually happening to our people out in the society and all the theorizing we're doing about jobs, job creation, incentives, and so forth and so on.

I spent enough time in good business schools, at the Harvard Business School, Michigan State, the University of Michigan, other places, and at IBM where I worked before coming into politics, to understand something about how the business system works. And I've spent a lot of time talking with people who are out making it work, such as some of you are doing each day.

We have got a disconnect right now between the actual economic policies and strategies of the country and what's actually happening in the lives of our people. And you've documented it in spades. You've got a 20-year story of really second-rate performance by us as a country, and a lot of people are out to lunch and missed it.

And thank God we've got a President who wants to work on this problem, who at least has got the issue in the center of the radar screen and has put some ideas on the table. And people can sharpshoot it any way they want. The fact is that he's at least fo-

cused on the right problem. I think his program basically makes a lot of sense and starts moving us.

But there's still a gap, and the gap you've laid out here again today, and that is, the easiest thing in the world to do is talk about the long-run solutions. Anybody with a brain today that reads is going to be able to figure out the long-run solutions because they're so obvious. All we've got to do is look at what other countries do if we weren't creative ourselves. But we are creative enough to see that.

My problem is I don't see how we get from where we are right now to the year 2000, or to the year 1995, and I don't know what we say to the families that are out there now that are the subject of these kinds of stories that have to function today. What is our response to them, or do we basically say, sorry, you're part of the lost generation? The underclass. We've got to write you off. We're going to go with Head Start. We'll take care of maybe your younger brothers and sisters 20 years from now or 15 years from now. We'll have brought them through down a different track. We'll have something for them, if we don't bungle it, but we really don't have anything for you right now. So it's this kind of a situation.

I don't think we can say that. I don't think it's the humane thing to do. I don't think it's even in the tradition of the religious ethics of this country, for that matter, regardless of where somebody's position along that scale is.

If you look at our founding documents, if you look at the basic ethos of the country, it is not to walk away from our own people. But increasingly, we're doing that. And the economic system has obviously proven itself incapable, in and of itself, with or without the help or hindrance of Government, to figure out a way to more fully utilize our own people. And I think there's an obligation to do this. I don't think it's just to chase the Communist out of power. It ought to be at least as importantly to make sure our own people are in power in terms of being able to at least have some measure of way to provide for themselves by their own work.

I'm not talking about welfare. I don't want anybody on welfare. But we've got a lot of people today that want to work that can't work because we haven't been smart enough to figure out how to have enough jobs in this country. And there's no excuse for that.

Mr. Regan.

Mr. REGAN. Senator, that's very eloquent and we all share your feelings. The usual response when a country finds itself in this kind of situation is to stimulate the economy. Lord Keynes suggested it. The trouble is we're like a soup kitchen without the soup. We did all the stimulating in the 1980's when it wasn't needed. Now we've got $4 trillion worth of debt.

The CHAIRMAN. And 50,000 nuclear warheads, by the way, that we can't do anything with.

Mr. REGAN. Yes, that's true. Now here we are, instead of stimulating, if I can make up a word here, "destimulating." We are reducing the deficit. The way you kick an economy going is to increase deficit spending. That's how it's done, in the short-term. But you have to have a reasonable deficit or no deficit. We don't. We're without the soup.

Other things that we're doing today in this country, which I support, the investment tax credit makes it maybe more economical to buy a piece of equipment than to hire somebody.

Family leave—I support it, but it adds to the cost of fringe benefits, contributing to 86 percent contingent workers in January. I've seen figures that go up to 95 percent.

As head of a large pension system, I push corporations for better long-term performance. We always focus on long term. But that means downsizing to some of them. And people applaud General Motors in the wake of an announcement of 86,000 layoffs and say that that should have occurred 10 years before.

The CHAIRMAN. Right. The stock price goes up.

Mr. REGAN. And the stock prices goes up. The best I can think of, and I mentioned it perhaps with not the kind of emphasis in light of your comments that I should have given, is public investment. I believe in it, and yet I've sat as a State and local official and watched boondoggles and pork barrels. I've watched it. Maybe a little bit of that is the price you pay. You try to minimize it. You try to focus on maintenance, not ribbon-cutting projects, that kind of thing where you get a bigger kick in terms of the dollars.

But my own view is, to repeat, that public investment in the infrastructure is a long-term, just what we need to spur private investment, will provide an interim stimulant. If we focus only on the stimulant part, it's going to get lost. If we focus on the other, I think it will be OK.

And how do you do it? You can't raise taxes any more. We're raising taxes. We know that dampens the economy. You don't have to agree necessarily with everything that Rand said about taxes to know that, fundamentally, if you raise taxes, you dampen private-sector activity. Even if only a teeny bit, you do, though Lynn of course is correct in his notion of how we should all support society, and I know Rand would endorse it.

So a lot of the things that we're doing here to kind of work our way out of this 20-year sclerosis is in fact focused on long-term. I would urge you, in spite of the letters you receive and the people I meet, to maintain the long-term discipline and the long-term focus. The best to do, from all the studies and all the people I've talked to, is public sector infrastructure investment, and that can only come not from higher taxes. It can only come from cutting spending in programs of less priority.

And I thought Senator Domenici touched on that and no need to repeat that. You've got yourself a massive job, massive task, to keep the eye on the ball, to correct the 20-year problem and, at the same time, try to help those in need in the next 3 or 4 years.

The CHAIRMAN. Senator Bennett.

Senator BENNETT. Thank you, Mr. Chairman. I don't want to prolong this. We all want to go to lunch. But may I respond to your comments with a few personal observations? I know exactly what you're talking about. I've been unemployed with no income, with obviously prima facie brilliant skills that nobody wanted.

The CHAIRMAN. Can I just ask when that would have been, in terms of just timeframe?

Senator BENNETT. A dozen years ago, in my late 40's. It's a scary time and it came at a time with kids in college. It came at a time

with mortgage payments and no health benefits and on the street. It's not a fun experience and I sympathize completely with the cry that you're raising on behalf of those who are going through it.

However, going back to the comment made here, we could solve that immediately by keeping the defense budget at its present level and continuing to manufacture missiles and silos and keep all of those Ph.D.'s that you're talking about meeting their mortgages.

We've made the obvious decision that the defense budget is much too large. It needs to come down. And people who have got very fancy degrees learning to build missiles and nuclear weapons are, in fact, no longer needed in our society, in our economy.

I'm a great believer in Adam Smith. I'm a great believer in market forces. And yes, we must do what we can to solve the problem and let these people down as easily as possible. But the worst thing we could do, in my opinion, Mr. Chairman would be to try to hang on to everything in the status quo and every circumstance there and not take the leap into the future that says maybe the rocket scientist does have to become an Amway salesman or whatever it might be, and recognize we are going through some very fundamental changes in the economy.

That's why the recovery from this recession is not producing new jobs, in my opinion, is because this recession is different from any other. It's not a basic inventory recession where we built too many cars.

So, Mr. Williams, we just let the inventory get sold off and then everybody gets called back to General Motors again. That's the way historically we've had recessions. They've been inventory recessions. We don't have that kind of recession this time. The jobs that General Motors is eliminating this time are never coming back, no matter what happens because they were jobs that weren't needed any more. The jobs at IBM are never coming back, no matter what happens because IBM, through bad management, if you will, Mr. Regan, missed the boat. And a man who was almost in my condition a dozen years ago, a dropout named Bill Gates, is now the richest man in the United States, because he didn't miss the boat, while IBM did.

All of these changes are going on. So we need to recognize that the economy is fundamentally changed. It's fundamentally changed at a time when the defense circumstance is fundamentally changing and we have to get on with the future and the new world that's facing us.

I applaud this group for the contribution they are making. I don't have an answer for you, Mr. Chairman. I hear the cry you're raising and it's a legitimate cry and I feel it in my own guy, having lived through it. But I recognize that the fundamental changes that are going on means that the world will never be the same and we have to face that fact and move forward in that regard.

Thank you.

The CHAIRMAN. You know, it's interesting, just to add a point and then I'll call on Mr. Bergsten, then we'll finish up here. And that is, the reason I asked about when you went through that experience, and you said roughly a dozen years ago, I think we are caught in this period of epic change and they've laid it out as well.

I think part of what's happened even in the last dozen years is the situation has become far more difficult and perverse.

I'll give you just one element that's come into the puzzle. A dozen years ago, we had a balance of trade with the rest of the world. We were not a debtor Nation and we were selling as much as we were buying.

Since that time, we've not only had a persistent deficit that's grown up—it's come down a little but it's started back up again. We've had a cumulative merchandise trade deficit of over $1.2 trillion. It's a monster. You put it on a chart and it just knocks your hat off. And we didn't do much about it during that period of time. Not to talk about where all the failure were, the point is the rest of the world did some things we didn't and so there we are.

That has subtracted an enormous amount of vitality out of our job base. I don't know that you can even track it because it goes off in so many different directions, and that's just one element. When I think about that and I throw NAFTA in on top of it now because there's a big sales push for NAFTA, people who think it's a good idea and are going to benefit from it, think it's wonderful. The theorists think it's wonderful, most of the employed theorists.

But the cold fact of the matter is that because of the huge wage differentials that we have, and they're not quite 10:1, 7:1, 8:1, I've already got over 70 Ford, Chrysler and GM plants in Mexico without a free trade agreement. I think we're going to have a lot more afterward, in part because of the wage differentials.

But however one debates that issue, if you just step back and look at the broad trade issue, if we don't find a way to get that trade deficit down and down sharply—and you lay that out. You talk about getting to a balance of trade over 8 years, roughly. I mean, not a perfect balance but, in a sense, get rid of the structural trade deficit. There's enormous job growth potentially in that if we could do that. Just like you export jobs if you've got a huge trade deficit.

We had a trade deficit last year with Communist China of about $20 billion and we sent a lot of jobs to China, in effect. So that's a part of the problem when I just think of things, what's come into the picture even in the last dozen years that's different.

The other thing you cite, here's IBM, a company I used to work for, going right down in a straight-line problem, and here's Microsoft that comes from nowhere. The problem is we've got too many IBM's and not enough Microsoft's.

If you start adding it up and add up the economy, the problem is you've got more stories of distress in big numbers than you do have of success in big numbers. And I don't know how we foster one and try to ease up the amount on the other.

Senator BENNETT. I don't, either, but I do know one thing that doesn't work, and that is having the Government makes IBM's and Microsoft's decisions for them.

The CHAIRMAN. Well, that's probably right. But, in a sense, that's no answer. With all due respect, and you don't mean it this way, but what can happen is that those things can turn into slogans. And what we need is a strategy and an answer, and I'm looking for that.

I'll make the Government part be as small as—what I look at now, I don't see the private sector able to do it by itself. I don't see anything in this report that shows me over the last 20 years—we've had administrations of different orientations over that period of time. The Government policy has shifted and changed, tax policy shifted and changed.

The private sector by itself hasn't been able to get the job done or we wouldn't be meeting here. If they had, we'd all be somewhere else and we'd probably be talking about some other issue here today. The private sector hasn't been able to get it done in this country. And I don't think the private sector, by itself, I don't think there's any reason to have confidence that if nothing is done on the margin, the private sector is going to get it done in the next 20 years. And the public doesn't feel that way, by the way. I think the public has basically said, no, we want some teamwork and we want business and Government and labor to be at a table like this and thinking about this together, which is what this group precisely is doing.

But now we've got to take it beyond that and consistent with our values. I believe in the market system, too. I think you've got to let the market system do as much as it can do. But if the market system can't generate the results you need, maybe there's some flaws in the market system. I would say these huge bilateral trade deficits, the fact that we had nearly a $50 billion trade deficit with Japan last year is not the functioning of a free market. That's not Adam Smith at work.

There are a lot of things we could sell in Japan today, we're not selling in Japan today because Japan won't let us sell those things in Japan today. That's not Adam Smith. That's somebody in MITI and the rest of the place saying, we'll take this much and no more.

In any event, you and I will have to debate this on the subway and I don't want to detain our witnesses any longer here. Plus we both have caucuses to go to.

Mr. Bergsten, why don't you try to finish up on behalf of your panel?

Mr. BERGSTEN. I would like to do that by trying to offer a response to your very crucial challenge, what to do in the next 2 to 3 years. Some of the things that our Council recommends are long-term in nature—education reform and the like. But I don't want to leave the misapprehension that we are saying nothing can or should be done until the year 2000.

The CHAIRMAN. Right.

Mr. BERGSTEN. That's our ultimate target to get a viable, competitive American economy for the long run. For in the 2- to 3-year horizon, let me offer you a three-part program, which pulls together some things that people have said already.

First, as Ned Regan was stressing, we need public infrastructure investment. It makes sense for the long run. It's good for our overall competitive position on a permanent basis, but it can also have some very helpful short- and medium-term effect.

Second, is support for private investment. As I stressed before, that's where job creation is going to come from. And I think that a combination of two elements will generate that. One is the specific supports for private investment that we recommend—a perma-

nent investment tax credit, a new R&D credit, faster depreciation allowances. But the other element is the one Ned Regan also mentioned—keep working on the budget deficit. That generates much lower long-term interest rates. I personally think long-term interest rates can come down a lot more, as this budget package becomes more and more credible. That's going to stimulate private investment, and that in turn will create jobs. That's the second part.

The third part is the one you just alluded to—trade. We've gotten a lot of net job creation from trade over the last 10 years. In fact, the totality of the net increase in manufacturing jobs in this country in the last 10 years has come from the export sector. And export-sector jobs pay 17 percent more on average than the average wage for the economy as a whole.

We've created jobs in the right place, with higher wages, trade approval——

The CHAIRMAN. Now wait a minute. You're taking—I don't think you can take half of that balance sheet.

Mr. BERGSTEN. I'm sorry. You're right. It's the improvement in the trade balance. The trade deficit, as you know, peaked at about $160 billion in 1987. It's roughly been cut in half since that time. In real terms it has been cut more than in half.

That trade balance improvement, which includes the import side as well as the export side, has created something like one-third of the total economic growth in the country since 1986 and much of the increase in manufacturing jobs over that period.

That's only the prelude. The point is, if we can get a G–7 growth strategy, get out of the way of our firms trying to sell abroad, continue to knock down barriers abroad, get the exchange rate right, have a competitive export credit program, do the export expansion program we propose in the report, you could get another 5-year burst of net job creation and economic expansion from the trade sector, and that clearly could begin to kick in very importantly over the next 2 or 3 years. So I offer you that as a three-part program.

The CHAIRMAN. Probably faster than anything else, isn't it? If we could sell more abroad starting right now, wouldn't that do more to create jobs here?

Mr. BERGSTEN. If we could get those major foreign markets growing again, and get out of the way of our own exporters by getting rid of some of these disincentives, plus implement a competitive credit program, I think within the next year to 18 months we could be generating significant improvement on the trade side.

If you took that plus public infrastructure investment, plus the incentives to private investment that we propose, including lower interest rates through budget correction, then I think we could meet your target of significant, good job creation in the next 2 or 3 years.

The CHAIRMAN. Why don't you try to put that—could I ask within your mission to put that in a little policy paper and maybe try to include in that some of the things that Senator Bennett is saying, and I am, that are not in conflict and see—that would be useful for us to see in addition to what you're talking about in the long term. I'm with you essentially foresquare on the long term. I'm concerned about getting to the long term.

Senator BENNETT. Not to prolong this, but very quickly, yes and no. In support of private investment, would you include a lowering of the capital gains tax rate? And on trade, quickly, for or against NAFTA?

Mr. BERGSTEN. For NAFTA, because we do believe—I'm speaking for myself now, as Lynn did for the steelworkers a minute ago.

The CHAIRMAN. OK.

Mr. BERGSTEN. We've done some substantial studies on that at my institute which show that, in the short to medium run, NAFTA should significantly increase jobs for the economy on a net basis. It does dislocate some growth, no doubt, but there is net job creation, because the Mexican trade deficit goes up as they import a lot of capital to invest. Most of that trade deficit is with the United States. We get job creation.

We've gotten a net increase of about a quarter of a million jobs in our trade with Mexico just over the last 3 years as they've implemented their reforms, in part because of the anticipation of NAFTA. So on that one, I'm positive.

We looked at cutting the capital gains tax in some depth both in our Corporate Governance Subcouncil and in our Capital Formation Subcouncil, and we came out dubious that it would have any significant net effect on new investment, capital formation, or the economy as a whole.

The CHAIRMAN. What about targeted capital gains?

Senator BENNETT. What about Federal revenues?

Mr. BERGSTEN. If you're going to do it, you should certainly target it. And we had in mind some various ways to target it that would make it more likely to succeed. My colleagues can give their own views if they would like, but I think on balance we came out skeptical about a capital gains tax cut, and we therefore did not recommend it in our report.

Senator BENNETT. What about the impact on Federal revenues? There's 15 percent, to take President Bush's figure, of something is a whole lot more revenue than 28 percent of nothing. And I can introduce you to a lot of people who are sitting on fairly substantial amounts of capital who would love to free it up for entrepreneurial activity, but they don't want to do it at 28 percent hit.

Mr. BERGSTEN. Well, Our Capital Formation Subcouncil did look at this in some depth and concluded that the short-term revenue effect was hugely positive for the reason you say. It would unlock a lot of capital gains. But over the long run it would be a revenue loser. But that doesn't end the debate. The question would then be whether that revenue loss in a static sense, as you said before——

Senator BENNETT. And back to my mathematical model.

Mr. BERGSTEN. Right—would be offset by the stimulative effect on the economy—higher profits, higher income. On that, I have to tell you, we came out skeptical.

Senator BENNETT. I see.

Mr. BERGSTEN. But I have to say, if I could, Mr. Chairman one word in strong support of Senator Bennett's methodology. He laid out brilliantly what economists call general equilibrium analysis. Now he had a much more attractive way of putting it.

Senator BENNETT. May I say I've never heard of it?

Mr. BERGSTEN. Economists call it general equilibrium analysis, and he gave us a perfect description of it.

The CHAIRMAN. Lynn, you want a final word?

Mr. WILLIAMS. It probably goes without saying, but just for the record, the labor movement is very concerned about NAFTA in its present form, for the reasons that you eloquently outlined.

We're not opposed to trade with the world. We're not opposed to trade with Mexico. But we think we need to approach these developments much more carefully, again out of concern for the enormous damage that this trade deficit has done to America over these last 10 years.

The CHAIRMAN. I'll just say on that, I attended the last Presidential debate in East Lansing, MI. The three Presidential candidates were there. And Ross Perot got off this line, as a Texas businessman who I think understands something about the way the private sector works, talked about the loud sucking sound of jobs going south of the border. So I want to just file a clear dissent. I think your analysis on this is wrong. We'll argue that out. But there are others from different vantage points who also have a great concern about it.

In any event, gentlemen, we appreciate all the work. We appreciate your being here today and the work of the Council, generally. We'll make use of it. Thank you.

Mr. BERGSTEN. Thank you very much.

The CHAIRMAN. The committee stands in recess.

Mr. REGAN. Thank you.

Mr. WILLIAMS. Thank you, Mr. Chairman.

[Whereupon, at 12:55 p.m., the committee was recessed.]

[Prepared statements of witnesses and additional material supplied for the record follow:]

PREPARED STATEMENT OF SENATOR JEFF BINGAMAN

JOINT HEARING ON THE COMPETITIVENESS POLICY COUNCIL REPORT
BEFORE THE SENATE BANKING, HOUSING, AND URBAN AFFAIRS COMMITTEE
AND THE JOINT ECONOMIC COMMITTEE

MARCH 16, 1993

I want to join Senator Riegle in welcoming our panel this morning and congratulating them on their report and thanking them for the tremendous effort they and their Subcouncils have put in over the past year in studying these issues.

I had a chance to serve on the Manufacturing Subcouncil and to meet on several occasions with the full Council over the past year. I can personally attest to the seriousness with which all of the members pursued their mandate to make concrete recommendations to help this nation regain its competitive footing before the turn of the century eight years from now.

I can also attest to the great support the Council gave on a bipartisan basis to the Clinton transition's economic team, headed by Bob Reich. Secretary Reich and some of his staff spent a full-day with the Council in December and found the time extremely well-spent.

The report we receive this morning sets out goals for our nation's competitive position and a strategy for achieving those goals which are consistent with the Clinton administration's policies adopted thus far.

The technology policy chapter, for example, parallels the statement issued by the President and the Vice President on February 16 in almost every respect. The only possible difference would be the Council's recommendation to broaden the Research and Experimentation Tax Credit to cover improvements in manufacturing process technology and to spur industry support of university research and industry R&D consortia. These are worthy objectives and this proposal certainly deserves serious consideration by the Congress and the administration.

Clearly the Council had trouble reaching consensus on deficit reduction proposals, something they candidly admit. Having reached unanimous agreement in all other areas, the report states: "We were striving to develop similar agreement on our budget proposals but were, in all candor, finding it difficult to reconcile strongly divergent views of some of our members on both the size and shape of the package." In the end the Council decided to register its support for the President's budget proposals as a "major initial step" in reducing our deficit.

The Council is not the first institution to have difficulty in reaching consensus on the specific steps needed to eliminate our budget deficit, nor will they be the last. Their dilemma points to the importance of Presidential leadership in this area. Only President Clinton's proposals broke their deadlock, and I am sure that the administration is grateful for the Council's endorsement of their budget proposals as a first step in the long battle to restore our nation's fiscal balance and thereby to put our economy on a sounder footing.

Let me conclude by again thanking the Council for the tremendous effort they have made to highlight the problems facing our nation's economy and to come forth with serious recommendations for solving them. I look forward to continuing to work with the Council in the future.

PREPARED STATEMENT OF SENATOR ALFONSE D'AMATO

Mr. Chairman, I would like to welcome the witnesses for today's hearing: Fred Bergsten, Chairman of the Competitiveness Policy Council, Rand Araskog, Chairman of ITT Corporation in New York City, Edward Regan, Comptroller of the State of New York and Lynn Williams, President of the United Steelworkers of America in Pittsburgh.

Today, the Competitiveness Policy Council is releasing its Second Report to the President and Congress entitled, "A Competitiveness Strategy for America." The report recommends changes to enhance competitiveness in many areas including: education, training, technology, corporate governance and financial markets, trade policy, investment in public and private infrastructure, private savings and the Federal budget deficit.

Though the Report focuses on an array of issues, I would like to focus on two of its recommendations which fall under the jurisdiction of the Banking Committee. First, we must look at increasing export financing for small-medium businesses and second, reducing the disincentives that block billions of dollars in exports by American companies. We must make improvements in these areas while at the same time

demand reciprocity of open foreign markets and defend against unfair trade practices here at home. These efforts will enhance the ability of American business to increase their exports and increase their jobs here at home.

In the area of export finance, the Report states that over 50 percent of U.S. exports are accounted for by only 100 companies. Last week the U.S. Trade Representative, Michael Kantor stated that 85 percent of U.S. exports come from only 15 percent of U.S. companies. Both statistics make the point that the export potential of our small- and medium-sized businesses remains to be realized.

For some time, the small business has been able to get loan guarantees from the Export-Import Bank but have been unable to find a bank to lend the money. This is especially true when the loans are less than $5 million making it particularly difficult for the smaller exporter to find financing. Last year, Congress mandated that the Export-Import Bank make 10 percent of its direct loans available to small business to help address this problem.

Another, more innovative, approach to export financing is being pioneered by primarily New York based service firms, including Donaldson Lufkin & Jenrette, a New York investment banking concern owned by Equitable Insurance, the law firms of Shearson & Sterling and Brown & Wood; and Harris Trust and Savings. They have created "The Export Fund" and pledged $150 million in private capital for companies trying to export. Last November, former Exim Bank Chairman John Macomber approved "The Export Fund" as a source of capital for approved exporters. The negotiations with the Exim Bank are very close to completion. I urge the Exim legal department to work expeditiously to resolve the final technical details necessary to make this project a reality.

Increasing the financing of American exports through creation of private sources of capital for exports by small businesses and making sure that the Export-Import Bank meets its Congressional mandate of making 10 percent of its direct loans to small business are steps in the right direction to increasing export financing opportunities.

In the area of export controls, we must focus on providing a better environment for the exportation of American goods by streamlining and reorganizing our export control system. We must consider how best to streamline the export control process to balance the desire to expand our foreign export markets and maintain our national security. We must eliminate bureaucratic red tape that stands in the way of American exports and expedite not only the process but the export control list that determines what must not be allowed to be exported.

Last week, the Senate passed by unanimous consent, H.R.750, a simple extension of the Export Administration Act of 1979 through June 30, 1994. This important statute expired in September 1990. Since that time the government has relied upon the International Emergency Powers Act to administer and enforce the system of export controls. It is important to put the law back on the books. Exporters have been challenging the legitimacy of the emergency powers in the courts and without these authorities sensitive exports can go abroad unchecked.

However, this extension is only a temporary fix. The Congress will be considering a comprehensive rewrite of the Export Administration Act during the next year. Our world has changed drastically since the original legislation was crafted in the late 1970's. I believe that the containment of nuclear, chemical, and biological proliferation is now the primary goal of any export control policy and the Export Administration Act should be rewritten with these considerations in mind.

On February 17, 1993, Senator Mack and I sent a letter to President Clinton outlining our concerns for reforming the system. President Clinton promptly responded to us on February 23, 1993. In his letter, the President stated that he agreed with us that the procedures used by the agencies charged with export control responsibilities should not make it more difficult for U.S. exporters to compete in international markets, as long as U.S. national security interests are adequately protected. He also informed us that he has initiated a thorough review of the current export control system and will make this a top priority of the Administration officials responsible for export control policy. I look forward to working with the President as we rewrite the Export Administration Act.

Though the Competitiveness Report focuses on many issues, I believe the importance of increasing our exports is critical to our economic growth and creating jobs here in the U.S.

Mr. Chairman, I look forward to the comments and suggestions of our panelists in regard to these and other issues.

I ask unanimous consent that the following letters be included in the Record: the letter to President Clinton from Senators D'Amato and Mack and the letter to Senator D'Amato from President Clinton.

PREPARED STATEMENT OF SENATOR CAROL MOSELEY-BRAUN

Mr. Chairman, I think it is important that this committee, together with the Joint Economic Committee, reviews the second report of the Competitiveness Policy Council. Competitiveness cannot be just the province of economists and the business community; every American has a real stake in improving our competitiveness. The days when the United States could ignore the rest of the world and improve the standard of living of Americans solely through improvements in the domestic economy are long gone. How well we live here at home now increasingly depends on how well we compete with Germans, Japanese, and numerous other countries throughout the world.

I think the first report of the Competitiveness Policy Council was essentially correct. I agree that American competitiveness is slowly eroding, and I also agree that this erosion has important long-run foreign policy and national security implications if it is not reversed.

That is why I think it is so important that both Congress and the President make improving our competitiveness a real priority this year, and from here on out. I am therefore pleased to be able to say that the new administration is thinking long-term and globally, and that competitiveness is at the top of the President's agenda.

This year's report builds on last year's work, and sets out some of the problems that must be dealt with. The report accurately points out that much of our growth in the 1980's was debt-financed from abroad, and that the U.S. is now the world's largest debtor nation. Frankly, I find it appalling that our balance of payments has deteriorated so badly. I agree that improving our competitiveness means dealing with our balance of payments problem.

This year's report covers a lot of ground, and I will not take the time of my colleagues to comment on every aspect of it. I would like to note, however, the priority the report gives to education and training. The release accompanying the report states that "American competitiveness rests fundamentally on the skills of our people." Laura Tyson said the same thing at her confirmation hearing. I think we need to act on this point, and do what it takes to improve our educational system and our worker training.

I look forward to hearing from this morning's witnesses. I know our committee, will benefit greatly from the work the competitiveness council has done, and I look forward to working with the members of the Council in a coordinated effort to change the direction of public policy and to give competitiveness issues the attention and priority they deserve.

PREPARED STATEMENT OF C. FRED BERGSTEN

CHAIRMAN, COMPETITIVENESS POLICY COUNCIL

A COMPETITIVENESS STRATEGY FOR AMERICA

MARCH 16, 1993

Thank you, Mr. Chairman for the opportunity to appear before both Committees today to release the Second Report of the Competitiveness Policy Council. One year ago, four members of the Council presented our First Report to you and announced the creation of eight Subcouncils to draft specific recommendations for the President and Congress. Today, we fulfill our commitment to present a detailed blueprint for a comprehensive competitiveness strategy for America.

On behalf of the Council, I would like to thank both Committees for your support of the Council's work during the past year. The Council looks forward to continuing our work with you in the months ahead as the Congress takes up new investment and competitiveness initiatives. All of our Subcouncils are also prepared to present their analysis and recommendations to these and other Congressional committees.

The Council concludes that the United States continues to face major competitiveness problems despite recent pickups in the growth of both the economy and national productivity. Moreover, it finds that the problem has been developing for two or three decades, so it will take some time to restore America's competitiveness. The group believes *the United States should seek a fundamental turnaround by the year 2000*—the end of the decade, the end of the century, and the end of the next two Presidential terms. It suggests that the American public wants and will support such an effort, and that the present period may offer a rare opportunity to launch the needed reforms.

The Council adopts several key goals for the year 2000:

—*raising national productivity growth to an annual average of 2 percent* from the 0.7 percent rate that prevailed from 1973 to 1991, thereby increasing family incomes by one third in a single generation;
—*achieving annual economic growth of at least 3–3½ percent, to create enough high-wage jobs to restore full employment and a rising standard of living;* and
—*eliminating the deficit in our external balance,* halting the buildup of foreign debt that has turned America into the world's largest debtor nation.

To achieve these goals, the Council supports many of the investment proposals made by President Clinton and his budget program. The Council in fact expressed pleasure that the President's program includes a number of recommendations made both in its First Report, released in March 1992, and in its new Second Report. The Council's latest recommendations, however, go considerably further than those of the Administration in three areas.

First, American competitiveness and productivity will increase on a lasting basis only if *private investment is raised permanently by at least 5 percent of GNP.* Such investment should be encouraged through:

—*a permanent Equipment Tax Credit (ETC)* rather than the temporary investment tax credit proposed for larger firms by the Administration;
—*a permanent Innovation and Commercialization Tax Credit (ICTC)* to replace the recently expired Research and Experimentation Tax Credit, covering improvements in the manufacturing process as well as in product technology; and
—*depreciation allowances* linked to the "competitive life" of equipment rather than its "tax life," which is often much longer and thus discourages new investment.

Second, international trade has become a crucial element of the American economy. We can compete at home only if we can compete abroad. The Council therefore recommends a major new *export expansion strategy* including:

—*increasing governmental export credits to $20 billion annually* to compete fully with our major foreign rivals;
—*elimination or at least sharp reduction of export controls* and other export disincentives that currently block billions of dollars of foreign sales by U.S. companies;
—*doubling of the funding for, and sharp strengthening of, the government's export promotion effort;* and
—*maintenance of competitive exchange rates,* as called for in the Omnibus Trade and Competitiveness Act of 1988, via restoration of the currency reference ranges that were maintained during 1987–88.

Third, American competitiveness rests fundamentally on the skills of our people. The Council argues that "the bottom line is simple: if we want a higher standard of living, we will have to earn it by *improving the education and training of our workforce.*" The Council therefore proposes sweeping educational reform including:

—development of *content and performance standards* for what students should know and be able to do;
—linking governmental assistance to higher education to *actions by colleges to raise their admission standards;*
—adoption of a new *uniform high school transcript to encourage employers to review school records;*
—development of "pay-for-knowledge" systems that *reward teachers for acquiring the skills necessary to teach the new standards;* and
—*rewards for districts and schools that are able to achieve these high standards.*

The Council based most of its recommendations on the work of eight Subcouncils that it created a year ago to work on the problems to which it attached highest priority: Capital Formation, Corporate Governance and Financial Markets, Critical Technologies, Education, Manufacturing, Public Infrastructure, Trade Policy and Training. Over 200 leading Americans participated actively in developing the Subcouncils' analyses and proposals. The Council's program thus reflects a high degree of consensus among leaders of business, government (including 19 from the Bush Administration and 22 Members of Congress), labor and the public on most major aspects of improving American competitiveness. The full reports of all eight Subcouncils are appended to the Council's report and the Subcouncils will help the Council monitor the implementation of their respective proposals in 1993.

A summary of the Council's complete list of proposals is attached. Preliminary versions of its conclusions, and the reports of each of the Subcouncils, were conveyed to the newly elected Administration early in the transition period. Some of the more important, all which seek to sharply increase the "bang for each investment buck," include:

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1. **Worker Training.** The Council concludes that "the most striking waste of our national resources is in the tortuous road we force high school graduates to travel to make their initial entry into the work force. Other nations gain a 5 to 10 year head start (on the United States) . . . The government provides no help when (the young workers) need it most." In addition, "only five percent of our businesses have replaced traditional production with high performance systems." Remedies include:

—new school-to-work transition programs based on the German apprenticeship model;
—"lifetime learning systems" via more comprehensive corporate commitments to train all workers;
—doubling the resources available for retraining workers dislocated by structural changes in the economy; and
—broadening the current tax deduction for job-related educational expenses to cover training that improves employment skills beyond the current line of work.

2. **Technology.** It remains largely correct that "Americans are good starters while Japanese (and others) are good finishers." American industry has undervalued the importance of making continual improvements in products and processes, and of manufacturing in general. Government policy has emphasized scientific breakthroughs rather than commercial followthroughs. In addition to the new tax incentives already cited, the Government should:

—reorient its own R&D investment to civilian and dual-use purposes;
—rapidly expand the Advanced Technology Program in the Department of Commerce to an annual program level of $750 million; and
—modify federal procurement rules to make the government a better consumer of key technologies.

3. **Corporate Governance.** Major changes are obviously transpiring in the relationship among managements, boards of directors and shareholders in a number of companies. Continuation of that process should resolve many of the key governance problems. Companies should, however, also begin preparing periodic analyses of their long-term financial, strategic and organizational results in relation to goals established by management and the board. These should include non-financial measures of long-term prospects that emphasize intangibles such as worker training, quality of product, research and development and strategic positioning rather than relying solely on items which fall neatly into the traditional securities industry's valuations of price/earnings multiples.

4. **Public Infrastructure.** Public investment correlates closely with national productivity and yields high returns: 30–40 percent for maintenance of the highway system, 10–20 percent for expanding that system in congested areas. But such investments were only half as great in 1990 as in 1980 and were only one quarter as great as in Germany. One half of all American roads were recently rated "poor" or "low/fair." Highway congestion costs us an estimated $100 billion annually. Especially needed are:

—new intermodal strategies, particularly to support a national export effort;
—full funding for the Intermodal Surface Transportation Efficiency Act (ISTEA);
—an increase of $12 billion in additional annual spending to put our roads, bridges and mass transit into good working order;
—new federal techniques to encourage states to maintain roads and bridges, such as bond and grant covenants that incorporate a maintenance schedule; and
—adoption of higher roadbuilding standards (as in parts of Europe) and life-cycle costing for transportation design.

It is essential to pay for all these new programs responsibly. In addition, *the national saving rate must be increased substantially to fund the required increase in national investment.* Since no one has been able to devise effective policy proposals to increase private saving, the increased resources must be generated primarily by reducing the budget deficit of the federal government.

The Council supports the President's budget program as a good first step in this direction. If fully implemented, it should generate an increase in the national saving rate of 2½–3 percent of GNP. The group counsels an extensive review of the budget situation as the President's four-year program approaches its conclusion. It suspects that substantial further cuts in the deficit may then be required, probably requiring more extensive actions such as reductions in non-means-tested entitlement programs and institution of a consumption tax or value-added tax.

Attached to this testimony is a summary of the Council's key recommendations.

The Council is pleased to note that *some of the proposals in its First Report have already been adopted. The International Trade Commission has created an Office of Competitiveness to begin providing the baseline projections of key American indus-*

tries which the Council views as essential to permit intelligent responses to problems of specific sectors. *The new Administration has created a National Economic Council to coordinate the several components of the required competitiveness strategy,* drawing on detailed proposals from the Commission on Government Renewal that was partially inspired by the Council. On the other hand, there has been no progress in implementing the legal requirement that all legislative proposals carry Competitiveness Impact Statements and the Council reiterates it recommendation that Congress insist that this be done.

The Council plans to address five additional key issues in 1993:

—the *competitiveness impact of* alternative proposals to reform health care;
—how to create *high performance workplaces;*
—*tort reform;*
—*capital allocation;* and
—*social problems* undermining the nation's competitiveness.

On the basis of the detailed proposals for a comprehensive strategy laid out in its new report, the Council now plans to fulfill the "competitiveness ombudsman" role called for in its founding legislation.

Mr. Chairman, thank you again for inviting the Council to present its recommendations. The Congress established the Council to catalyze agreement between business, labor, and management on ways to enhance America's future. I believe that the Congress was correct in its intuition that the creation of an advisory commission, like the Council, could play a constructive brokering and consensus-building role. The Council's report is the fruit of our labors. We hope that these recommendations will be helpful to you and the Administration in your collective efforts to build a more competitive America.

TESTIMONY OF LYNN R. WILLIAMS

INTERNATIONAL PRESIDENT, UNITED STEELWORKERS OF AMERICA

MARCH 16, 1993

The Competitiveness Policy Council's report represents an important stride forward in the country's effort to come to grips with its underlying economic problems. It is significant that a group as diverse as the membership of the Council and its Subcouncils was able to agree on such a sweeping package of fundamental reforms. This testifies to the readiness of the country for change and confirms the wisdom of the Congress in establishing the Council in the 1988 Trade Act.

My remarks will focus this morning on what the Council's recommendations mean for people. Competitiveness and, more specifically, the Council's overall goal of doubling labor productivity growth is the key to the size and quality of life of our middle class. Wage rates closely track labor productivity. As real wages have declined in the last twenty years, so have the fortunes of our middle class, and workers in general. Even if their overall standard of living has not declined, working families have found themselves running and working harder just to stay in place. The key to keeping alive the American Dream of generation-after-generation increases in living standards lies in strengthening wages. And the key to higher wages lies in stronger productivity growth.

The Council's recommendations aim to raise productivity growth by improving the way we outfit our workforce for economic competition. All of our recommendations have one thing in common: they leverage the capabilities and increase the value of American labor.

Our strategy listed a number of basic principles among which was the realization that unions, as the workers' own organizations, must be enlisted as full participants in developing, designing, and bringing about a new culture of workplace organization and human resource development. Where a workplace environment is soured by an anti-worker-organization attitude, it is difficult to envision the commitment to substantive changes which our report recommends. Indeed the systemic changes inducing a transformation of the education and training of workers, a key to competitiveness in the global economy, recognizes that public and private resources will more effectively be deployed if we build real partnerships between business and labor.

Perhaps the recommendations with the most immediate effect on American workers are those in the area of Training. As Chairman of our Training Subcouncil, I would like to take a few minutes to focus on these proposals. I have already mentioned the central statistic that real wages in the United States have been declining for twenty years. But this overall trend masks the fact that the drop has been far

faster for the bottom two-thirds of wage earners. Since 1979, the share of full-time workers earning poverty level wages has jumped by more than 50 percent. As a result, the gap between rich and poor has been growing; it is greater today for American males than at any point since 1940.

Employees without college degrees have borne the brunt of these trends. Only college-educated workers have increased incomes since 1979, everyone else's have fallen. In short, we have created two wage tracks: high incomes and great opportunity for those able to get a good education; low wages and limited opportunities for the 75 percent of high school students who will not graduate from college.

Our competitors invest substantially more to develop the skills of their workers, particularly those of non-college graduates. Two thirds of the German workforce have completed an extensive apprenticeship program compared to less than two-tenths of one percent in the United States. Japanese firms put secondary school graduates through intensive training programs which are just the beginning of a lifetime of work-based learning. Overall, the United States spends 0.17 percent of GDP on employment and training, while France spends four times as much.

There is no optimal amount of national investment in workforce training which will guarantee substantially higher productivity. However, it is clear that the United States is underinvesting. In both Germany and Japan, the bottom two-thirds of wage earners have boosted productivity faster than their American counterparts. In turn, this has contributed to stronger wage growth and more equitable income distribution. America must respond to this challenge.

For these reasons, the Training Subcouncil has proposed reforms in four main areas:

1. BUILDING A BETTER, MORE STREAMLINED TRAINING SYSTEM.

The General Accounting Office has determined that there are 125 different, often poorly coordinated, federal employment and training programs administered by no less than 14 agencies. The Council recommends creation of a network of local human resources development boards to serve as "one stop shopping" for people seeking training services. National occupational skill standards should also be established to focus the training efforts of both students and employers. The United States is the only industrialized nation without a formal system for developing and disseminating skill standards.

2. ENCOURAGING CONTINUAL SKILLS UPGRADING ON THE JOB.

Many obstacles prevent firms, especially small- and medium-sized enterprises, from investing more in the development of their workers. Two of the biggest are concerns about employee turnover and cost. The Subcouncil identified two options to help overcome these hurdles:

(a) institute a 1.5 percent of payroll training guarantee which would require firms with at least 50 workers to invest 1.5 percent of payroll in developing the skills of their employees, or pay the equivalent into a national training fund; and

(b) create a program of training grants for firms, unions and consortia, coordinated with existing state modernization and customized training programs and financed through general revenues or a very small payroll tax.

In addition, individual workers, like firms, face obstacles to skills upgrading. Present federal efforts on their behalf are limited. One problem is the narrowness of the tax deduction for "job-related" training expenses. The "job-related" requirement benefits managers, with their broadly defined job descriptions, and discriminates against front-line, shop floor workers. Therefore, the Subcouncil proposed broadening the tax deduction to include skills which will promote long-run employment security.

3. INTEGRATING SCHOOL AND WORK FOR HIGH SCHOOL STUDENTS.

A third of our high school graduates drift for over a decade between jobs having little career potential. At the same time, our employers lament the lack of qualified young workers. The Subcouncil endorsed a range of efforts to help communities strengthen their school to work transition programs, including the provision of incentives to employers and unions to participate in apprenticeship and other programs, creation of a national youth service corps, and allocation of a small portion of federal economic revitalization and public works funding to youth apprenticeship.

4. STRENGTHENING THE CAPACITY OF WORKERS TO ADAPT TO CHANGE BY PROVIDING GENEROUS DISLOCATED WORKER ASSISTANCE.

The Subcouncil recommended the creation of a comprehensive worker adjustment program, backed by secure and adequate funding. The program should offer improved job search assistance, adequate income support during longer term retrain-

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ing, a wage supplement to help workers return to work faster without suffering severe income drops and, in the absence of universal health insurance, some degree of interim health care coverage.

The challenges of dislocation can not be avoided, nor should workers, firms and society bear the substantial costs of job losses. We have proposed in our Subcouncil report that Congress and the Administration take a dramatic step forward, enhancing the benefits available to dislocated workers, among which is the income support feature of Trade Adjustment Assistance which is essential for longer term training. With the possible advent of a NAFTA settlement and a new GATT agreement, the features of TAA need to be upgraded and its scope expanded to include at least those affected by environmental requirements and defense down-sizing.

Another area which has a strong bearing on the productivity of our workforce is, of course, our educational system. I would like to highlight some of the recommendations made by our Education Subcouncil, which was chaired by Albert Shanker, President of the American Federation of Teachers.

(1) *Develop high standards for what students should know and be able to do in order to be prepared for democratic citizenship, higher education, and productive employment. Then test them on it.*

The Subcouncil reached the conclusion that curriculum content and student performance standards represent the central issue in education policy. Every one of the world's highest achieving school systems makes clear its expectations for schools, school staff, teacher education and for how education resources ought to be deployed. We in the United States do not. Every one of these other school systems also administers external student tests that are based on its education content standards and curricula and for which students can and must prepare. We do not. This is part of the reason why our students trail in many international educational comparisons.

(2) *Develop the capacity of schools to help their students meet high standards by ensuring that they have the flexibility, expertise, and resources they need to do so.* Flexibility requires substantial deregulation of schools by all levels of government.

(3) *Develop a system of accountability for schools that uses student achievement on performance tests to signal the need for external intervention.*

In general, the Education Subcouncil was reluctant to propose specific, sweeping programmatic changes. The last thing our 100,000 diverse elementary and secondary schools need is another one-size-fits-all set of federal reforms. Instead, the Subcouncil offered a framework for reform, leaving specific tactics to the appropriate levels of government and institutions. In essence the framework is: adopt high standards; develop the capacity of schools and students to meet them; and hold the school system and students accountable for the results.

Finally, I would like to say a word or two on the subject of the budget deficit. As President of the United Steelworkers of America, I see deficit reduction as a means to the end of boosting capital investment, not as an end in itself. That is why I support the Council's deliberate and balanced proposal to implement immediately a program to cut the deficit in half over four years and to perform a mid-course review before deciding how far to go in the second stage of deficit reduction. I am not convinced that moving more rapidly to budget surplus, as suggested by some, is necessary to raise national saving and investment. In fact, it might hurt saving and investment by undermining economic growth.

Conclusion

The Council's report attempts to indicate how government policy could improve our international economic competitiveness and standard of living. I believe these recommendations could form the basis of a successful economic strategy for the United States over the course of the next generation. Something like this program could help extend the American Dream and maintain our standing as the world's preeminent economic power well into the next century.

Thank you.

QUESTIONS FOR THE RECORD ON THE COMPETITIVENESS POLICY COUNCIL'S SECOND REPORT FOR C. FRED BERGSTEN

Question #1

On page 23 of your report, as part of your recommendation for eliminating America's current account surplus, you call on the Clinton Administration to place a higher priority on developing a global growth strategy with our G–7 partners, especially Japan and Germany. How much of our trade deficit with Japan do you think we can cut through a policy of macroeconomic coordination? What else must we do to eliminate our trade deficit with Japan?

Answer #1

The Council's unanimous recommendation to eliminate the current account deficit first appeared in our report last year. The Council firmly believes that, in order to achieve a sustainable improvement in our standard of living, we must eliminate our net foreign borrowing and finance our new investment in human and physical capital with domestic savings. In addition, the Council agrees with our Trade Policy Subcouncil that exchange rate instability and mismanaged macroeconomic policies seriously hurt U.S. firms' abilities to reach their export potential. The Council therefore calls for better international coordination among the G–7 countries and the prompt return to a system of currency reference ranges as part of our six point strategy to improve U.S. export performance. In addition to improving macroeconomic coordination, our Trade Policy Subcouncil calls on the U.S. Government to reinvigorate the SII talks with Japan particularly with respect to antitrust and other competitiveness policies.

The Council did not take a deep look at the details of the United States-Japanese trade deficit but, as Director of the Institute for International Economics, I am currently concluding a study with my colleague Marcus Noland which does. Our initial work provides evidence that Japanese barriers account for $10–$20 billion in lost U.S. export sales annually. This suggests that there would be major payoff in a successful effort to improve our recent successes in Japan.

In addition, however, our study suggests that the bulk of the bilateral deficit remains the product of macroeconomic factors such as the current economic downturn in Japan and, in particular, the yen-dollar exchange rate. Detailed studies by my colleague William Cline show that a 1 percent rise in the rate of yen against the dollar will improve the U.S. trade balance with Japan by about $1 billion over a two-year period. The recent rise of about 20 percent in the yen-dollar rate thus suggests that, as President Clinton indicated in his press conference on April 16, our bilateral deficit with Japan could decline significantly in the period just ahead.

Question #2

Your report is remarkably negative on all of the proposals to directly promote private savings via the Tax Code, increased IRA's, cuts in the capital gains tax, and elimination of the taxation of interest and dividend earnings, for example. You put almost all of your emphasis on cutting public dissaving. Is there nothing we can do to bring our private savings rate more in line with those of the Japanese and Germans?

Answer #2

In our first report, and again in this report, the Council notes that the United States has the lowest national saving rate among the industrial countries. U.S. gross national saving in 1990 was 14 percent of GDP, well below the average of 21 percent for all OECD member countries. In order to improve our national saving rate, we must address both private and public saving.

In the case of private saving, U.S. households save one half to one third less than in other OECD countries. In addition, as our Capital Formation Subcouncil reports, there is agreement amongst economists that there is very little direct policy action that can be taken to significantly increase private saving. Tax incentives for retirement funds mainly shift the composition of private saving and do not raise the overall level. Such steps of course result in lower tax revenues and thereby exacerbate our public dissaving, reducing the net effect that any increase in private saving may have on national saving.

There are possibilities, however, for increasing private saving indirectly by discouraging private consumption. Our current tax system, which perversely taxes saving and encourages consumption, is an important barrier to private saving. Hence, many members of the Council have expressed support for a switch to consumption taxes, both of an aggregate nature (such as a value-added tax) and on specific sectors (such as energy, tobacco and alcohol). We have not made a recommendation on this issue, other than to endorse the tax proposals that are part of the President's budget plan, but we will be doing further work on it during the coming year.

Question #3

On page 25 of your report you discuss export controls that you state block billions of dollars of foreign sales by American companies. You recommend that:

> *all* unilateral U.S. export controls should be sharply limited since only multilateral controls can be effective against a target country.

That sounds good in theory, but what do we do if we know nations like Iran, Iraq, China, and North Korea are trying to make weapons of mass destruction and the means to deliver them. Do we continue to allow U.S. companies to ship materials that help them if we cannot persuade other countries not to?

Answer #3

The Council, in agreement with our Trade Policy Subcouncil, starts from the premise that our current complex web of export controls places U.S. exporters at a major disadvantage. In some cases U.S. based companies are prevented from exporting while foreign based companies are free to win those markets. With the end of the Cold War, we must take a serious look at the logic and practice of our export controls and design a system which works to the advantage of our exporters.

For example, in the case where the United States is the single or principal supplier, unilateral controls could be effective. But if the United States unilaterally decides not to supply an item—for example, jets for Iran—that decision can be easily undercut by other governments who allow their firms to fill the order. In these

case the United States should forgo a unilateral restraint which will have no other effect than hurting American exporters.

Question #4

You endorse a sharp increase in export credit programs, in particular an annual program level of $20 billion (with an implied subsidy of $1.2 billion) for the Export-Import Bank. The Clinton Administration's budget proposals do not advocate this level of export financing. How would you achieve the desired level of support? Should this be a priority even if we have cut other programs in this budget category?

Answer #4

One of the greatest disadvantages our exporters operate under is inadequate export financing. Our Trade Policy Subcouncil focused much attention on the lack of resources and appropriate vehicles especially for small and medium size firms around the country. Based on their findings the Council recommends that the Export-Import Bank program level be increased annually over the next four years. We believe that such increases should be a priority and should be fully paid for—through spending cuts in this category or through tax increases. It should be noted that, since the Government plays a partnership role in export financing, this is one budget area where the social impact of the Government's contribution is much greater than the actual expenditure.

Question #5

Just last week we passed a reauthorization of the Export Administration Act through June 1994 in the hope that between now and then we can rationalize our export control system. You recommend the fusion of the current State Department and Commerce Department export control systems into a single entity, authorized by a single law. Who would you put in charge of this new system, a new agency or Commerce or State?

Answer #5

Our Trade Policy Subcouncil recommends that export controls be consolidated under one agency, preferable the Department of Commerce. The National Economic Council should oversee export control policy in conjunction with the National Security Council to ensure that export controls do not place undue burdens on U.S. industries. Thorough cost-benefit analyses should be made, perhaps with the aid of impact assessments prepared by the U.S. International Trade Commission's new Office of International Competitiveness.

QUESTIONS FOR THE RECORD ON THE COMPETITIVENESS POLICY COUNCIL'S SECOND REPORT FOR RAND ARASKOG

Question #1

On page 1 of its report the Council notes that "over the past decade the United States has run merchandise trade deficits that if added up would total $1 trillion and that are continuing to grow at an annual rate of $100 billion."

What impact have those massive trade deficits had on America's industrial base and the standard of living of Americans? Can we

halt our economic decline if we fail to drastically reduce those deficits?

Answer #1

As suggested in our first report last year, the series of trade deficits and the economic imbalances which underlay them are another indication of the slow erosion of the U.S. industrial base and our standard of living which has been taking place over the last twenty years. Moreover, the trade deficit itself leads to a lower American standard of living in two ways: by requiring a steady depreciation of our currency, and by requiring the United States to service the rapidly growing foreign debt that we incur to finance the deficits as they arise.

QUESTIONS FOR THE RECORD ON THE COMPETITIVENESS POLICY COUNCIL'S SECOND REPORT FOR LYNN WILLIAMS

Question #1

I note with interest the Council's conclusion on page 47 of its report that America's social ills—drugs, crime, family breakdown and the like—have a pervasive impact on our ability to compete. I am pleased that the Council plans to create a Subcouncil to make recommendations on how we as a nation deal with these matters.

Do you think that the NAFTA will worsen these social problems by driving down American wages for the least educated and skilled of our workers?

Answer #1

The increasing interrelationship of the world economy makes it very difficult to disentangle the multiple factors contributing to the current state of our social ills. Clearly, increased trade liberalization, as in the case of the NAFTA, will mean increased trade competition. But it also must mean increased economic opportunity if such liberalization is to be in our national interest. The challenge therefore becomes to insure that the benefits outweigh the costs to such an agreement, and to insure that the benefits from the NAFTA are channeled to those who must pay a price for its implementation.

Our concern over the dislocations associated with NAFTA should not be confined to those workers directly competing with Mexican workers but must also expand to include the thousands of workers in input producing industries as well as workers in communities dependent on those industries which will be adversely affected by NAFTA. With this in mind, the Training Subcouncil, which I chaired, called for a comprehensive and expansive program to assist all workers adjust to changes in our new global-based economy. Such a program must include income maintenance and training as well as job search assistance and relocation allowances.

Given the increasing globalization of the world economies, it is even more important for the Government to follow a strategy which promotes the creation of high-wage, high-skilled jobs through a comprehensive investment program starting at our education system, and providing for the school to work transition and worker training, to investment in infrastructure, technology and manufacturing, while following sound trade policies.

Question #2

I understand that you are not only a member of the Council, but also Chairman of its Subcouncil on Training. On page 2 of the testimony you submitted with the report, you note that real wages in the United States have been in decline for 20 years. You further note:

> the drop has been far faster for the bottom two-thirds of wage earners . . . the gap between rich and poor has been growing; it is greater today for American males that at any time since 1940.

To what do you attribute the accelerating decline in wages for the 75% of our high school students who will not graduate from college and the growing gap in wages between our college and non-college educated workers?

Answer #2

There is wide agreement amongst those who study labor markets that education is an important factor in understanding recent declines in real wages. Those workers who enter the labor force with more education are expected to experience greater income gains consistently throughout their career. The converse is true for those workers with less education. Since only 25 percent of high school graduates in America complete four years of college, this means that the vast majority of our labor force can not expect to share in the American dream of a rising standard of living throughout their lifetime.

The Training Subcouncil report to the full Council notes that we devote seven times more resources to those 25 percent of high school students who graduate from college than we do to the other 75 percent of students. Within the context of a system of lifelong learning, the Subcouncil recommends and the full Council endorses placing much more attention on assisting students with the transition from school to work. Many people point to the German apprenticeship model as a goal. Our Subcouncil found that the German model should serve as one among many models which should be studied and tried throughout the country. By the end of the day, the goal is to find the best program, or menu of programs to meet our national needs.

QUESTIONS FOR THE RECORD ON THE COMPETITIVENESS POLICY COUNCIL'S SECOND REPORT FOR EDWARD REGAN

Question #1a

I note that you are not only a member of the Council, but that you also chair its Corporate Governance Subcouncil. As you know, many critics of American corporations claim they have a much too short planning horizon, and that it is caused, at least in part, by the rise of institutional investors. I was surprised to find no real discussion or analysis of this issue in the portion of the report dealing with corporate governance.

Can you tell us why this issue was not examined?

Answer #1a

On the contrary, the issue of "short-term planning horizons of corporations" was examined in the final and full report of the Subcouncil on Corporate Governance and Financial Markets, *The*

Will To Act, which is located on pages 131–163 of the Competitiveness Policy Council's *Reports of the Subcouncils*.

Upon extensive examination of the evidence,[1] the majority of Subcouncil members disagreed with the widely held theory that institutional investors make short-term investments and force a short-term corporate planning horizon.

The Subcouncil's findings and conclusions regarding short-term planning horizons and the role of institutional investors are crystallized in footnote 7 of our report which states:

> . . . the issue is not one of time horizons for investment. Rather, the issue is the nature of the types of investments needed to enhance competitiveness, regardless of how long investment money is committed. There are many types of corporations which invest along different time frames; what is short term for the electric utility industry is long term for the toy industry. There are also many types of investors who invest with different time horizons and objectives: some index and hold for years, while others are more quantitatively oriented and trade more frequently; life insurance companies tend to invest more heavily in debt instruments than either public or private pension funds. All these participants combine to produce highly liquid and efficient markets.
>
> Nor is the issue "transient" or fragmented shareholder ownership. Owners come from all investment schools and behave with more or less impact on the corporate governance process. Our system has many large, long term owners, some active and some passive. Even passive investors with small blocks of shares, if they are vocal, can have an impact on the corporate governance process. The key is whether investors—regardless of their make-up or time horizons—have the means to monitor and communicate, as well as the will to act to effect changes either in the direction of corporate investment or in the corporate governance/strategic planning process or both.
>
> Thus, the concept of short-termism ignores the complexity of the financial market system, the varying investment strategies of each type of investor, and the varying time frames for corporate investment and strategic planning.

Question #1b

Your report does not endorse the conventional view that "short-termism" and excess trading in financial markets are at the root of our corporate competitiveness problems. You say the true issue

[1] More specifically, in Section I of *The Will To Act*, entitled "The Capital Choices Argument" (pgs. 137–138), and in particular, in footnote 7 (pg. 145), we directly address this issue. The topic was, in large part, the subject of the Subcouncil's first meeting on June 2, 1992 in Philadelphia. At this conference, authors of several papers concerning the issue of short-term planning horizons presented their findings to the Subcouncil for discussion. The papers included: (1) "Shareholder Trading Practice and Corporate Investment Horizons," by Kenneth Froot of MIT; (2) "Financial Speculation: Economic Efficiency and Public Policy. A Background Paper Prepared for the Twentieth Century Fund," by Robert Shiller of Yale; (3) "Time Horizons and Technology Investments," by Bruce Guile, Director of the Program Office of the National Academy of Engineering; and (4) "Liquidity versus Control: The Institutional Investor as Corporate Monitor," by John Coffee of the Columbia Law School.

In addition, the issue of "the rise of institutional investors" was discussed and debated in detail at the August 5, 1992 meeting of the Subcouncil in Minneapolis. Several papers on this subject were presented including: (1) "Institutional Investors: The Swing Vote in Corporate Governance: Monolithic or Diverse? Implications for Corporate Governance," by Dr. Carolyn Brancato, Subcouncil Staff Director; and (2) "The Evolving Role of Institutional Investors in Corporate Governance: Monolithic or Diverse? Implications for Corporate Governance," by Ira M. Millstein of Weil, Gotshal & Manges.

is "poor managerial performance." To what do you attribute the low investment in R&D and plant equipment by our private sector compared to their foreign competitors?

Answer #1b

In its report, *The Will To Act* (pg. 136 of *Reports of the Subcouncils*), the Subcouncil agrees that:

"Aggregate rates of investment in property, plant and equipment, civilian R&D and intangible assets such as corporate training and related forms of human resource development are, by a variety of measures, lower in the United States than both Japan and Germany, as well as other major competitors."

The Subcouncil believes that, by and large, markets are liquid and efficient and current stock prices, for the most part, reflect a corporation's prospects, including potential returns from investment in plant and equipment and R&D. Under-investment, where it exists, was found to be primarily related to poor managerial performance as well as gaps in information and specific market anomalies (as discussed below).

Subcouncil members were, however, not persuaded that financial markets and excess trading cause this under-investment. Moreover, it was the general finding by Subcouncil members that the United States does not have a *pervasive* under-investment problem, but instead that there exist:

. . . "pockets" of under-investment in which viable longer-term payout projects are not undertaken despite their long-term strategic attractiveness. One such area involves highly targeted industries where technological costs are high, returns are slow to mature (where products may take up to fifteen years to bring to the market, for example), and investments are illiquid and intangible for a long time and complex and difficult to evaluate. Other areas may involve retooling or bringing product development to fruition in companies not necessarily in the high technological category.

Even if those macroeconomic policies discussed above were to be altered, our capital markets can, on occasion operate with "blinders" on which miss, and therefore undervalue, important aspects of investment in things like research and development, education and worker training—the very things that are critical to positioning businesses strategically to compete in world markets and the very things that are difficult if not, in some cases, virtually impossible to capture in current financial measures.

To the extent there is a problem—and again, there were sharp differences among our members on this subject—there is no one culprit. Investors and managers and all other constituent groups appear to be behaving rationally. They concentrate on the measurements available—financial and economic returns. If some potential investors focus on quarterly and annual financial statements in the belief that this is where a corporation chooses to show its true value, and if the corporation puts its emphasis on timely financial returns, believing this will attract investors, there will, as Porter argues, continue to be a negative, circular, self-reinforcing trend as to this situation. (pg. 137, *Reports of the Subcouncils)*

The Subcouncil recommended that changes be made to improve the tangible and intangible investment environment. Of major importance is the notion of revamping what is considered to be "corporate value" to include a broader range of investments in tangible and intangible properties which would help position corporations strategically to compete in world markets.

In short, the Subcouncil identified and recommended the establishment of two elements which could improve the nation's under-investment problem by "filling-up" the pockets of under-investment. These were: (1) improved managerial performance; and (2) the establishment of nonfinancial measurements of corporate performance, such as product quality, customer satisfaction, employee training, and strategic direction. These two approaches will better present to shareholders information on the true and more comprehensive "value" of corporations, which will, in turn, direct investment in efficient markets toward companies meeting this new and improved standard of corporate value.

[boilerplate committee roster]

United States Senate

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WASHINGTON, DC 20510-6075

February 17, 1993

The Honorable Bill Clinton
President of the United States
The White House
Washington, DC 20500

Dear Mr. President:

We are writing in response to Secretary of Commerce Ronald H. Brown's, letter to us in support of an extension of the Export Administration Act of 1979 (EAA). Yesterday, the House of Representatives passed an extension of the Act through June 30, 1994, as a stop-gap measure, pending a comprehensive rewrite of the EAA. The Congress hopes to complete action on the rewrite prior to the expiration of the simple extension.

We intend to support the EAA extension when it comes before the Senate. However, as the Congress embarks on rewriting the EAA, it is important for us to know that the Administration is committed to a reorganization of the export control bureaucracy. We believe the current system is inadequate to deal with the new national security challenges.

As you know, the current export control system was designed to address the Cold War imperative of preventing the Soviet Union from acquiring militarily sensitive technologies. However well or poorly the system may have worked in the past, it is ill-equipped to deal with today's national security threats. The United States has a major interest in preventing additional countries from acquiring weapons of mass destruction, as the war with Iraq amply illustrates. Our current export control system, if not a complete failure in this area, falls short of meeting the goal of preventing the spread of nuclear, chemical and biological weaponry.

In the past, our export control system has been characterized by intense rivalries between departments with differing institutional approaches toward export controls. There is no incentive within the bureaucracy to refine the responsibilities for export control. The resulting bureaucratic maze has been difficult for exporters, and less than ideal for our national security.

We are profoundly skeptical the current system, split among Commerce, Defense, and State, will successfully balance today's commercial, security, and foreign policy interests. Tough issues are not resolved, unless forced by overwhelming external pressure from Congress or our allies. We believe the

reasons for policy gridlock are endemic to the system and will remain, until the system is reformed.

Since each department has strong and entrenched interests in this area, we believe a comprehensive reorganization must come from a body which is able to mediate between departments and has the authority of the President, such as the National Security and National Economic Councils. We recognize many of the sub-cabinet appointees, who will be critical in designing the Administration's export control framework, are not yet in place. However, we would ask the Administration to propose a comprehensive reorganization plan.

We look forward to reviewing the Administration's goals for reorganization and we believe the effort will be best focussed by setting a deadline up front. We respectfully request the Administration commit to outlining a reorganization plan by the end of September, 1993. This date would enable Congress to hold hearings this fall and act upon legislation early next year, prior to expiration of the Act. If the Administration presents a reorganization plan by that time, it will facilitate Congress's job of rewriting the Export Administration Act.

We thank you for your attention to this important matter, and look forward to your response, and to moving forward with the bill to extend the Export Administration Act.

Sincerely,

Alfonse D'Amato

Connie Mack

THE WHITE HOUSE

WASHINGTON

February 23, 1993

Dear Senator D'Amato:

Thank you for the co-signed letter with Senator Mack regarding an extension of the Export Administration Act (EAA). I appreciate your willingness to support a short-term extension of the EAA when it is considered by the Senate in the very near future. As Ron Brown, Secretary of Commerce, said in his recent letter to you, this short-term extension will provide an opportunity for the Administration and the Congress to collaborate in a major refashioning of our system of export controls.

I agree with you that recent changes in world conditions and relationships require that we do a thorough and comprehensive review of all aspects of the export control system. I also agree that the procedures used by the agencies charged with export control responsibilities should not make it more difficult for U.S. exporters to compete in international markets, so long as U.S. national security interests are adequately protected.

The Administration has not, at this point, discussed whether a reorganization of export control functions is necessary. I have, however, initiated a thorough review of the export control system and will make this review a top priority of the officials responsible for export control policy. We will seriously consider the option that you have presented, along with any other views on export controls that you may have, as we formulate our approach to a new EAA.

The Administration will consult with you and other members of Congress as we design and implement an export control system that is so critical for both the security and economic interests of the United States.

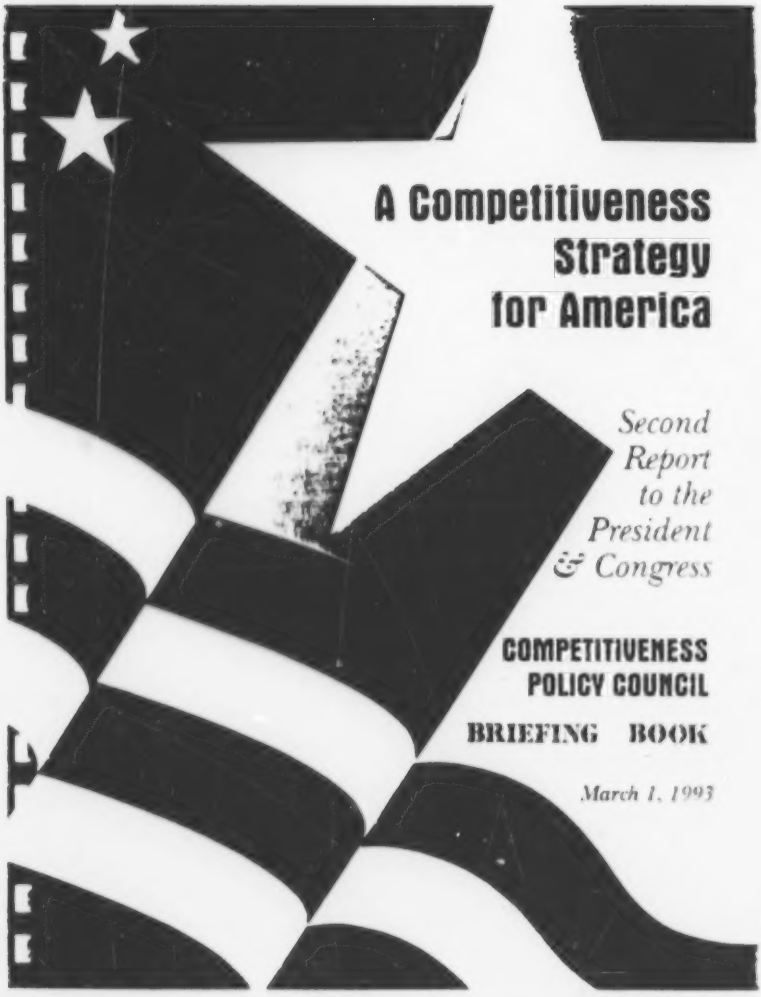
With best wishes,

Sincerely,

Bill

I was impressed by your letter and look forward to working with you on this.

The Honorable Alfonse M. D'Amato
United States Senate
Washington, D.C. 20510


A Competitiveness
Strategy
for America
Second
Report
to the
President
& Congress
COMPETITIVENESS
POLICY COUNCIL
BRIEFING BOOK
March 1, 1993

COMPETITIVENESS POLICY COUNCIL
11 Dupont Circle, NW • Suite 620 • Washington, DC 20036 • Tel: (202) 387-9017 • FAX: (202) 296-3132

NEWS RELEASE

March 16, 1993

Contact: Howard Rosen (202) 387-9017

COMPETITIVENESS POLICY COUNCIL PROPOSES ENHANCEMENTS IN CLINTON ECONOMIC PROGRAM

JOINT HEARINGS BEFORE JOINT ECONOMIC COMMITTEE AND SENATE BANKING, HOUSING AND URBAN AFFAIRS COMMITTEE: 10:00 am, Room 538 Dirksen Senate Office Building

EMBARGO: March 16, 1993, 10:00 a.m., E.S.T.

Washington, March 16—In its Second Report to the President and Congress, the Competitiveness Policy Council proposes a detailed blueprint for a "comprehensive competitiveness strategy for America." Its program goes beyond that of President Clinton in three major respects: stronger incentives for private investment, a new export expansion strategy and sweeping education reform.

The Council concludes that "the United States continues to face major competitiveness problems" despite recent pickups in the growth of both the economy and national productivity. Moreover, it finds that "the problem has been developing for two or three decades... so it will take some time to restore America's competitiveness." The group believes the United States should seek a fundamental turnaround by the year 2000—the end of the decade, the end of the century, and the end of the next two presidential terms. It suggests that the American public wants and will support such an effort, and that the present period may offer a unique opportunity to launch the needed reforms.

The Competitiveness Policy Council is a bipartisan national commission created by the Congress. Its twelve corporate leaders, labor union presidents, high government officials and representatives of the public were appointed by the President and by the joint leadership of the Senate and House of Representatives. It is chaired by Dr. C. Fred Bergsten, Director of the Institute for International Economics.

The Council adopts several key goals for the year 2000:

- raising national productivity growth to an annual average of 2 percent from the 0.7 percent rate that prevailed from 1973 to 1991, thereby increasing family incomes by one third in a single generation;

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- achieving annual economic growth of at least 3-3 1/2 percent, to create enough high-wage jobs to restore full employment and a rising standard of living; and

- eliminating the deficit in our external balance, halting the buildup of foreign debt that has turned America into the world's largest debtor nation.

To achieve these goals, the Council supports many of the investment proposals made by President Clinton and his budget program. The Council in fact expressed pleasure that the President's program includes a number of recommendations made both in its First Report, released in March 1992, and in its new Second Report. The Council's latest recommendations, however, go considerably further than those of the Administration in three areas.

First, American competitiveness and productivity will increase on a lasting basis only if private investment is raised permanently by at least 5 percent of GNP. Such investment should be encouraged through:

- a permanent Equipment Tax Credit (ETC) rather than the temporary investment tax credit proposed for larger firms by the Administration;

- a permanent Innovation and Commercialization Tax Credit (ICTC) to replace the recently expired Research and Experimentation Tax Credit, covering improvements in the manufacturing process as well as in product technology; and

- depreciation allowances linked to the "competitive life" of equipment rather than its "tax life," which is often much longer and thus discourages new investment.

Second, international trade has become a crucial element of the American economy. We can compete at home only if we can compete abroad. The Council therefore recommends a major new export expansion strategy including:

- increasing governmental export credits to $20 billion annually to compete fully with our major foreign rivals;

- elimination or at least sharp reduction of export controls and other export disincentives that currently block billions of dollars of foreign sales by US companies;

-- doubling of the funding for, and sharp strengthening of, the government's export promotion effort; and

-- maintenance of competitive exchange rates, as called for in the Omnibus Trade and Competitiveness Act of 1988, via restoration of the currency reference ranges that were maintained during 1987-88.

Third, American competitiveness rests fundamentally on the skills of our people. The Council argues that "the bottom line is simple: if we want a higher standard of living, we will have to earn it by improving the education and training of our workforce." The Council therefore proposes sweeping educational reform including:

-- development of content and performance standards for what students should know and be able to do;

-- linking governmental assistance to higher education to actions by colleges to raise their admission standards;

-- adoption of a new uniform high school transcript to encourage employers to review school records;

-- development of "pay-for-knowledge" systems that reward teachers for acquiring the skills necessary to teach the new standards; and

-- rewards for districts and schools that are able to achieve these high standards.

The Council based most of its recommendations on the work of eight Subcouncils that it created a year ago to work on the problems to which it attached highest priority: Capital Formation, Corporate Governance and Financial Markets, Critical Technologies, Education, Manufacturing, Public Infrastructure, Trade Policy and Training. Over 200 leading Americans participated actively in developing the Subcouncils' analyses and proposals. The Council's program thus reflects a high degree of consensus among leaders of business, government (including 19 from the Administration and 22 members of Congress), labor and the public on most major aspects of improving American competitiveness. The full reports of all eight Subcouncils are appended to the Council's report and the Subcouncils will help the Council monitor the implementation of their respective proposals in 1993.

A summary of the Council's complete list of proposals is attached. Preliminary versions of its conclusions, and the reports of each of the Subcouncils, were conveyed to the newly elected Administration early in the transition period. Some of the more important, all which seek to sharply increase the "bang for each investment buck," include:

1. Worker training. The Council concludes that "the most striking waste of our national resources is in the tortuous road we force high school graduates to travel to make their initial entry into the work force. Other nations gain a 5 to 10 year head start (on the United States)... The government provides no help when (the young workers) need it most." In addition, "only five percent of our businesses have replaced traditional production with high performance systems." Remedies include:

   -- new school-to-work transition programs based on the German apprenticeship model;

   -- "lifetime learning systems" via more comprehensive corporate commitments to train all workers;

   -- doubling the resources available for retraining workers dislocated by structural changes in the economy; and

   -- broadening the current tax deduction for job-related educational expenses to cover training that improves employment skills beyond the current line of work.

2. Technology. It remains largely correct that "Americans are good starters while Japanese (and others) are good finishers." American industry has undervalued the importance of making continual improvements in products and processes, and of manufacturing in general. Government policy has emphasized scientific breakthroughs rather than commercial followthroughs. In addition to the new tax incentives already cited, the Government should:

   -- reorient its own R&D investment to civilian and dual-use purposes;

   -- rapidly expand the Advanced Technology Program in the Department of Commerce to an annual program level of $750 million; and

   -- modify federal procurement rules to make the government a better consumer of key technologies.

3. Corporate Governance. Major changes are obviously transpiring in the relationship among managements, boards of directors and shareholders in a number of companies. Continuation of that process should resolve many of the key governance problems. Companies should, however, also begin preparing periodic analyses of their long-term financial, strategic and organizational results in relation to goals established by management and the board. These should include non-financial measures of long-term prospects that emphasize intangibles such as worker training, quality of product, research and development and strategic positioning rather than relying solely on items which fall neatly into the traditional securities industry's valuations of price/earnings multiples.

4. Public Infrastructure. Public investment correlates closely with national productivity and yields high returns: 30-40 percent for maintenance of the highway system, 10-20 percent for expanding that system in congested areas. But such investments were only half as great in 1990 as in 1960 and were only one quarter as great as in Germany. One half of all American roads were recently rated "poor" or "low/fair." Highway congestion costs us an estimated $100 billion annually. Especially needed are:

   - new intermodal strategies, particularly to support a national export effort;
   - full funding for the Intermodal Surface Transportation Efficiency Act (ISTEA);
   - an increase of $12 billion in additional annual spending to put our roads, bridges and mass transit into good working order;
   - new federal techniques to encourage states to maintain roads and bridges, such as bond and grant covenants that incorporate a maintenance schedule; and
   - adoption of higher roadbuilding standards (as in parts of Europe) and life-cycle costing for transportation design.

It is essential to pay for all these new programs responsibly. In addition, the national saving rate must be increased substantially to fund the required increase in national investment. Since no one has been able to devise effective policy proposals to increase private saving, the increased resources must be generated primarily by reducing the budget deficit of the federal government.

The Council supports the President's budget program as a good first step in this direction. If fully implemented, it should generate an increase in the national saving rate of 2 1/2-3 percent of GNP. The group counsels an extensive review of the budget situation as the President's four-year program approaches its conclusion. It suspects that substantial further cuts in the deficit may then be required, probably requiring more extensive actions such as reductions in non-means-tested entitlement programs and institution of a consumption tax or value-added tax.

The Council is pleased to note that some of the proposals in its First Report have already been adopted. The International Trade Commission has created an Office of Competitiveness to begin providing the baseline projections of key American industries which the Council views as essential to permit intelligent responses to problems of specific sectors. The new Administration has created a National Economic Council to coordinate the several components of the required competitiveness strategy, drawing on detailed proposals from the Commission on Government Renewal that was partially inspired by the Council. On the other hand, there has been no progress in implementing the legal requirement that all legislative proposals carry Competitiveness Impact Statements and the Council reiterates it recommendation that Congress insist that this be done.

The Council plans to address five additional key issues in 1993:

- the competitiveness impact of alternative proposals to reform health care;
- how to create high performance workplaces;
- tort reform;
- capital allocation; and
- social problems undermining the nation's competitiveness.

On the basis of the detailed proposals for a comprehensive strategy laid out in its new report, the Council now plans to fulfill the "competitiveness ombudsman" role called for in its founding legislation.

The Council's new report, A Competitiveness Strategy for America, will shortly be available at Government Printing Office bookstores. The eight subcouncil reports are reprinted in a separate volume which will also be available from the Government Printing Office. The Council's 1992 report, Building A Competitive America, can be obtained from the Council.

Competitiveness Policy Council
Second Report to the President and Congress
Summary of Recommendations

The Competitiveness Policy Council is a national commission established by the Congress in the Omnibus Trade and Competitiveness Act of 1988. Its mandate is to serve as a "national forum" and advise the President and Congress on improving the competitiveness of the United States.

The Council's membership is quadripartite: three corporate leaders (Rand Araskog, CEO of ITT, Jack Murphy, CEO of Dresser Industries; and Alexander B. Trowbridge, former President of the National Association of Manufactures), three labor union presidents (Jack Barry, President of the International Brotherhood of Electrical Workers; Al Shanker, President of the American Federation of Teachers; and Lynn Williams, President of the United Steelworkers of America), three high level government officials (one appointment to be made by President Clinton; Edward Regan, Comptroller of New York State; and William Graves, Secretary of State of Kansas) and three representatives of the public interest (C. Fred Bergsten, Director of the Institute for International Economics; Bruce Scott, professor at the Harvard Business School; and Edward Vetter, President of Vetter and Associates.) The President, the joint leadership of the House and the joint leadership of the Senate each appointed four members. The group includes six Democrats and six Republicans.

The Council made its first report in March 1992, highlighting the seriousness of the nation's competitiveness problem, analyzing its underlying causes, outlining possible responses without making firm recommendations, and launching a process to develop such recommendations on the basis of in-depth analysis of the most important components of the issue. The Council established eight Subcouncils, as authorized in its legislative mandate, to develop specific policy recommendations in the following areas: Education, Training, Critical Technology, Corporate Governance, Trade Policy, Manufacturing, Public Infrastructure and Capital Formation. Over 200 leading American representatives of business, government, labor and the public participated in the eight Subcouncils. Together, the subcouncils held over 30 meetings throughout the country, preparing detailed analyses and proposals that provided the foundation for most of the recommendations that the Council is making in its Second Report to the President and Congress.

The Council sets out several goals in its Second Report:

1. The United States should double its growth of national productivity--from less than 1 percent annually to at least 2 percent. Higher productivity is the only way to raise the national standard of living. Meeting the target of increasing productivity growth by 1 percent annually would raise family incomes by one third in a single generation.

2. The economy must grow by at least 3-3½ percent annually, combining our targeted productivity growth of 2 percent with the expected annual growth of at least 1 percent in the country's labor force, to achieve and maintain full employment.

3. We must improve the quality of American jobs at the same time we preserve their quantity.

4. Economic models show that doubling productivity growth will require increasing national investment by at least 4-6 percent of GDP, or about $300 billion annually at current prices. Most of the expansion must come from the private sector.

5. This increase in investment should be financed domestically. The United States is already the world's largest debtor country and cannot prudently continue to depend on foreign capital.

6. The national saving rate will have to rise by 5-7 percent to fund both the targeted increase in national investment (4-6 percent) and (about 1 percent). This would restore it to the level that prevailed prior to 1973.

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The central thrust of our recommendations is a sharp increase in private investment and a cutback in the growth of consumption, especially by the public sector. There is considerable overlap between the Council's recommendations and President Clinton's proposals in A Vision of Change for America. In some cases, the Council's recommendation go beyond the President's program--especially in encouraging private investment, export expansion and education reform.

Education

The Council believes that the key to improving American education is the establishment of rigorous content and performance standards along the lines of the National Education Goals. Educators and technical experts must develop assessments that are based on these new standards. Schools and districts as a whole must be held accountable for the progress their students make in achieving them. We must change expectations from minimum competency to high achievement for both college and work-bound students. Our K-12 students must become productive workers instead of entitled consumers.

None of these steps will succeed if students do not assume responsibility for their own learning. Working hard and achieving in school must "count" for students, whether they go to college or enter the labor force immediately. We must therefore give students a stake in high performance through the following steps:

- External assessments, phased in over a 10-12 year period, should be given to high school students with the results serving as a major factor in their qualifying for college and for better jobs at better wages;

- Colleges and universities should raise their admissions standards, over a similar 10-12 year period, to reinforce the shift to higher standards in elementary and high schools;

- The federal and state governments should condition their assistance to higher education on evidence that colleges and universities are raising their admission standards, and they should offer more favorable financial aid terms to students who meet high standards;

- No student who meets high standards should be denied the opportunity for higher education for financial reasons;

- Employers should be encouraged to review school records --including course grades, conduct, and teacher recommendations--in choosing among job applicants. A new uniform transcript, jointly designed by employers and schools, should be developed.

Training

Our Training Subcouncil made recommendations in four major dimensions associated with training. The first is continuous worker retraining, or "lifetime learning," which could be achieved through requiring firms to invest 1.5 percent of payroll in training ("play or pay"), federal grants or training tax credits.

The second dimension is the school-to-work transition. Our Subcouncil recommends continued experimentation with different types of school-to-work transition programs: apprenticeship programs, compacts, cooperative education, and career academies. The federal government should finance pilot programs of public-private cooperation, create a national youth service corps as already proposed by President Clinton, and earmark a portion of public works funds for youth apprenticeship programs. Most importantly, as with education, the federal government should insist that agreed skill standards provide the foundation for all these efforts. Secretaries Reich and Riley have already called for a similar strategy. President Clinton's plan calls for $1.2 billion over four years.

Third, the United States needs a comprehensive program to ease the adjustment process for all workers dislocated by technological change, defense conversion, increased international trade flows and other sources of structural change. Such a program should combine various aspects of existing programs with benefits that include job search assistance, skills assessment, counseling, referral services, adequate income support, payments for retraining programs and extended income and benefit payments through the training period. The Clinton program calls for $4.6 billion to develop this type of program.

Finally, we need to better coordinate various worker training programs at the local, state, and national levels in order to better serve our training needs. A body of experts should be brought together to standardize the myriad of current retraining programs. Within one year, the group should submit specific recommendations for eliminating duplication among the 125 federal employment and training programs currently spread across 14 federal agencies.

Technology

A major problem facing American competitiveness is the lag of American firms in converting technological advances into a competitive advantage in the marketplace--the "commercialization" of technology. The Council recommends:

1. Private sector R&D should be stimulated and expanded by implementation of a permanent, incremental Innovation and Commercialization Tax Credit (ICTC) to cover R&D on process improvements as well as product development. President Clinton has called for a similar Research and Experimentation Tax Credit. The Council recommends an additional 25 percent credit for industry-sponsored university research and, to help overcome corporate reluctance to test traditional antitrust tenets, an additional 10 percent credit for participation in the first two years of new R&D consortia registered under the Cooperative Research Act of 1984.

2. The government should use defense spending reductions to reorient its own R&D spending from purely military to civilian and dual use R&D. Defense research and exploratory development should be kept strong but the new R&D budget should also emphasize generic technologies.

3. Some of these funds should be used to expand federal support for cooperative projects in areas of strong industry-government mutual interest. Specific steps include:

   - Encouraging ARPA and the military services to actively promote dual use technologies;
   - Expanding the Advanced Technology Program in the Department of Commerce to an annual program level of about $750 million. President Clinton's plan calls for an increase of $138 million in FY 1994, rising to $680 million by FY 1997;
   - Allocating 10-20 percent of the resources of the multi-program labs operated by the Department of Energy, of the NASA labs, and of selected DOD labs to jointly planned and jointly funded industry/government R&D on the basis of model Cooperative Research and Development Agreements (CRADAs) with private firms; a similar initiative is outlined in President Clinton's plan;
   - Modifying Federal procurement rules to make the federal government a better consumer of leading edge technologies;
   - Authorizing ARPA, the Department of Commerce, the National Institutes of Health and perhaps others to participate directly in the commercialization of technologies they have supported.

Trade Policy

The Council recommends six major initiatives in this area.

1. The new Administration should place high priority on developing a global growth strategy with our G-7 partners, especially Japan and Germany.

2. We must aim to maintain equilibrium exchange rates. The United States should therefore seek agreement in the G-7 on a credible system of reference ranges as maintained during 1987-88.

3. The United States must push hard--through multilateral, regional and bilateral negotiations--to open foreign markets to American products. It is essential to bring the Uruguay Round to a successful conclusion. To preserve the full benefit of a NAFTA agreement, it will have to contain strong provisions protecting the environment, labor adjustment and worker rights. Bilateral talks are especially important with Japan, and the Structural Impediments Initiative should be revised and reinvigorated.

4. We recommend a sharp increase in the quality and quantity of US export credit programs. The annual program level of the Export-Import Bank should be increased to $20 billion.

5. US export promotion efforts should be sharply increased, focused and improved. Working within the framework of the new National Economic Council, the Trade Promotion Coordinating Committee should streamline the 150 current export promotion programs scattered across ten different agencies. A single budget function for export support, including export finance, should be created and funding for export promotion should be doubled over the next five years.

6. A major effort is needed to eliminate, or at least sharply limit, our own export disincentives that block billions of dollars of foreign sales by American companies.

Manufacturing

There are three specific policy measures that should be adopted to promote new investment, especially in manufacturing:

1. Establishment of an incremental and permanent Equipment Tax Credit (ETC). By limiting its coverage to equipment, and excluding plant and real estate investment, the credit can generate much higher payoff per dollar of tax expenditure. President Clinton has proposed a similar incremental tax credit for all businesses on a temporary basis, and for small businesses on a permanent basis.

2. The government should authorize industry consortia for joint production as well as research.

3. The tax code should be modified to permit firms to depreciate manufacturing process equipment, newly installed after the adoption of this policy, at a rate such that the "tax life" of the equipment would be equal to its "competitive life."

Public Infrastructure

Our Subcouncil on Public Infrastructure identified several components of the nation's transportation system that require particular attention:

1. Immediate full funding of the spending levels authorized in 1991 by Intermodal Surface Transportation Efficiency Act (ISTEA), an increase of about $4 billion over FY 1993. The Clinton program calls for

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almost $3 billion in additional spending in FY 1993 and $2.6 billion above baseline spending in FY 1994.

2. The nation's air traffic control system needs basic reform. The Clinton program calls for $720 million over four years.

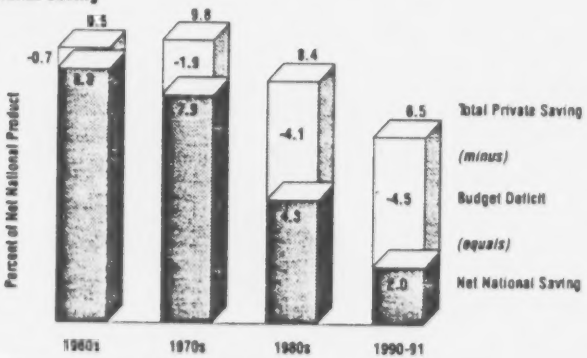
3. Continue funding for emerging transportation technologies – including intelligent vehicle and highway systems, high speed rail, and magnetic levitation trains – at their ISTEA levels. This is consistent with the Clinton program.

4. Extend the live of our existing national roads and bridges and increase the life expectancy of all new construction.

5. Over and above ISTEA's authorized levels, aim to raise the current level of infrastructure spending by up to $12.5 billion. This increase would includes $1 billion for intermodal improvements; $1 billion for bridges; $1.5 billion to stop endlessly deferring maintenance on our public transit systems; and $9 billion for necessary capacity expansions and pavement repairs on the National Highway System.

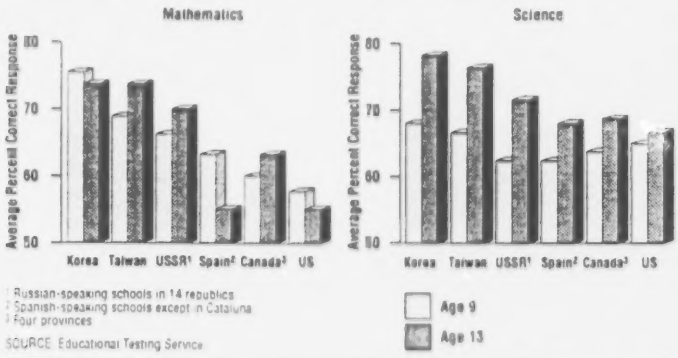
6. The Federal Government should establish a capital budget to help rationalize the government's investment process by distinguishing clearly between current and capital expenditures.

Figure 1
US National Saving



SOURCE: US Department of Commerce, Bureau of Economic Analysis

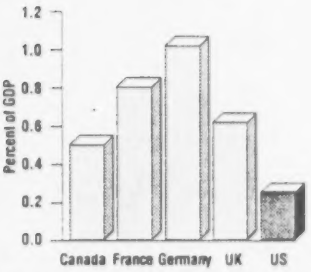
Figure 3
International Comparisons of Educational Performance, 1990–91



1 Russian-speaking schools in 14 republics
2 Spanish-speaking schools except in Catalunia
3 Four provinces

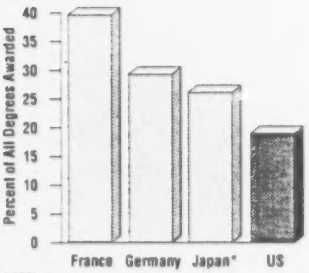
SOURCE: Educational Testing Service

Figure 4
Public Expenditures on Training, 1990-91



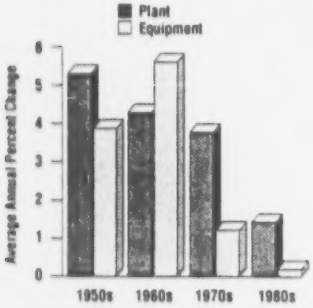
SOURCE: Organization for Economic Cooperation and Development

Figure 7
Science and Engineering Degrees Awarded, 1989



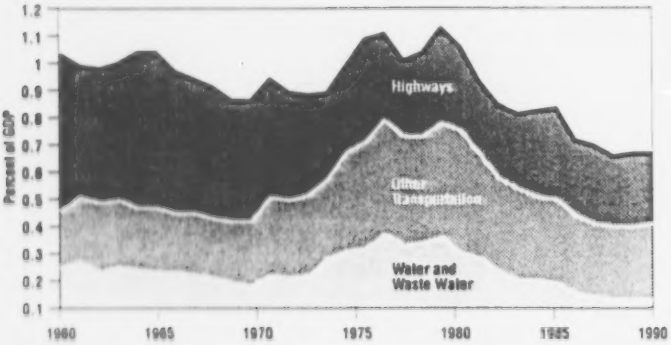
*1987 data
SOURCE: Organization for Economic Cooperation and Development

Figure 8
Real Growth in US Industrial Investment



SOURCE: Charles Steindel, *U.S. Investment Trends*, American Council for Capital Formation, March 1991

Figure 9
Federal Investment in Infrastructure



SOURCE: Congressional Budget Office

About Our Members

RAND V. ARASKOG has been Chairman, President and Chief Executive Officer of the ITT Corporation since 1980. He is also chairman of the Supervisory Board of Alcatel N.V. ITT's joint venture with Alcatel Alsthom of France, the world's largest telecommunications manufacturing company. Mr. Araskog is a director of several corporations, the New York Stock Exchange, and the Federal Reserve Bank of New York. He is a member of the Business Roundtable and author of *The ITT Wars*. He spent five years at the Department of Defense during the late 1950s.

JOHN J. BARRY is the International President of the International Brotherhood of Electrical Workers, a position he has held since 1986. He started as an apprentice in the electrical construction industry in 1942 and has held numerous elected positions in organized labor since 1962. He is a Vice President and Executive Council member of the AFL-CIO. He serves on many boards including the U.S. Council for Energy Awareness and the American Productivity Center.

C. FRED BERGSTEN, Chairman of the Council, is Director of the Institute for International Economics, which he founded in 1981. He was Assistant Secretary of the Treasury for International Affairs from 1977-1981 and served on the senior staff of the National Security Council from 1969-1971. Dr. Bergsten is the author of 19 books on a wide range of international economic issues, most recently *America in the World Economy: A Strategy for the 1990s*.

WILLIAM GRAVES is the Secretary of State of Kansas. He was first elected in 1986 and is now serving his second term. He is a member of the board of the National Association of Secretaries of State and of Leadership Kansas. He is also a member of the American Council of Young Political Leaders and has served as an election observer in Taiwan. Mr. Graves is active in numerous civic organizations including the Kansas Chamber of Commerce and Industry.

JOHN J. MURPHY has been Chairman, President and Chief Executive Officer of Dresser Industries, Inc. since 1983. He serves on the boards of PepsiCo, NationsBank Corporation, and Kerr-McGee Corporation. Mr. Murphy is also Chairman of the Board of Trustees of St. Bonaventure University and U.S. Chairman of the Trade and Economic Council. He serves on the Board of Trustees of Southern Methodist University and the Board of Directors of the U.S. Chamber of Commerce and the U.S.-China Business Council.

EDWARD V. REGAN is the New York State Comptroller. He was first elected to this position in 1978 and is now serving his fourth term. Among his many duties is the trusteeship of New York State's pension funds, whose assets now total over $50 billion. He was a member of the President's Commission on Industrial Competitiveness in 1983-85. Mr. Regan teaches at the Stern Graduate School of Business (NYU) and writes and lectures frequently on municipal finance, pensions, and corporate governance issues.

BRUCE R. SCOTT is the Paul W. Cherrington Professor of Business Administration at the Harvard Business School, where he has taught since 1962. Mr. Scott teaches a course in comparative economic strategies of countries and has co-authored a study of industrial policy in France, an analysis of the Venezuelan economy, and more recently a study of the prospects for transition in South Africa. He is co-author (with George Lodge) of *U.S. Competitiveness in the World Economy*.

ALBERT SHANKER is President of the American Federation of Teachers, a post he has been elected to since 1974. He has taught in the New York City public schools and at the graduate level. He is a vice president and Executive Council member of the AFL-CIO. Mr. Shanker serves on numerous boards including the National Academy of Education and the National Council on Education Standards and Testing. His weekly column, "Where We Stand," has appeared regularly for over 21 years.

ALEXANDER B. TROWBRIDGE is President of Trowbridge Partners, Inc. which he founded in 1990 following ten years as president of the National Association of Manufacturers. He has held a number of positions in the public and private sectors including U.S. Secretary of Commerce from 1967-68, President of the Conference Board, and Vice Chairman of Allied Chemical Corp. He serves on ten corporate boards and is a charter trustee of Phillips Academy in Andover, Massachusetts.

EDWARD O. VETTER is President of Edward O. Vetter & Associates. He previously held a number of positions at Texas Instruments including Executive Vice President and Chief Financial Officer. Since retiring from Texas Instruments Mr. Vetter has served as Undersecretary of Commerce from 1976-77, Energy Adviser to the Governor of Texas from 1979-83, and Chairman of the Texas Department of Commerce from 1987-91. He is a director of the AMR Corp., advisor to several venture funds, and a trustee of The Massachusetts Institute of Technology.

LYNN R. WILLIAMS is the International President of the United Steelworkers of America, a position he has held since 1983. He is a Vice President and Executive Council Member both of the AFL-CIO and of its Industrial Union Department. Mr. Williams is a member of numerous organizations including the Collective Bargaining Forum, the National Committee for Full Employment, the Committee for National Health Insurance, the National Planning Association, the National Institute for Dispute Resolution and the Economic Policy Institute.

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* Resigned as of January 20, 1993

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ISBN 0-16-041305-2